

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

FORM 10-K

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2002

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 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
(State or other jurisdiction of
incorporation or organization)

Edens and Winnetka Road, Northfield, Illinois
(Address of principal executive offices)

36-1823834
(I.R.S. Employer
Identification Number)

60093
(Zip Code)

Registrant's telephone number including area code: 847-446-7500

Securities registered pursuant to Section 12 (b) of the Act:

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
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 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 No

Aggregate market value at February 28, 2003, of voting stock held by nonaffiliates of the registrant: \$146,923,000*

Number of shares outstanding of each of the issuer's classes of common stock as of February 28, 2003:

<u>Class</u>	<u>Outstanding at February 28, 2003</u>
Common Stock, \$1 par value	8,881,225

Documents Incorporated by Reference

Part of Form 10-K
Part III, Items 10-12

Document Incorporated
Proxy Statement dated March 28, 2003

* 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.

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, fabric softeners, 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, which included phthalic anhydride, polyols and polyurethane foam systems, are used in plastics, building materials and refrigeration industries. Polymers are also used in coating, adhesive, sealant and elastomer applications. Specialty products sell chemicals used in food, flavoring and pharmaceutical applications.

MARKETING AND COMPETITION

Principal markets for surfactants are manufacturers of detergents, shampoos, lotions, fabric softeners, toothpastes and cosmetics. In addition, surfactants are 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 price alone, 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 several large national and regional producers and the internal divisions of larger companies. 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.

MAJOR CUSTOMER AND BACKLOG

The Company does not have any one 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 contract arrangements with certain customers, but purchases are generally contingent on purchaser requirements.

ENERGY SOURCES

Substantially all of the Company's manufacturing plants operate on electricity and interruptible gas purchased from local utilities. During peak heating demand periods, gas service to all plants may be temporarily interrupted for varying periods ranging from a few days to several months. The plants operate on fuel oil during these periods of interruption. 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 2003, 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 2002, 2001 and 2000 were \$15.0 million, \$13.7 million, and \$13.4 million, 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 \$1.5 million during 2002. These expenditures represented approximately four percent of the Company's capital expenditures in 2002. These expenditures, when incurred, are depreciated and charged on a straight-line basis to pre-tax earnings over their estimated useful lives, which is 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, 2002 and 2001, the Company employed worldwide 1,529 and 1,491 persons, respectively.

FOREIGN OPERATIONS

See Note 14, Segment Reporting, of the Consolidated Financial Statements (Item 8 of this Form 10-K).

SEGMENTS

See Note 14, Segment Reporting, of the Consolidated Financial Statements (Item 8 of this Form 10-K).

WEBSITE

The Company's website address is www.Stepan.com. The Company makes available free of charge on or through its website its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission.

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

Surfactants are produced at four plants in the United States and six wholly owned subsidiaries: one each in France, United Kingdom, Canada, Mexico, Colombia and Germany. The principal U.S. plant is located on a 626 acre site at Millsdale (Joliet), Illinois. A second plant is located on a 45 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 UK Limited is located on an 11 acre site in Stalybridge (Manchester), United Kingdom. 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

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 Liability Act (CERCLA) 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 USEPA to the Company for property currently owned by the Company, the Company completed a Remedial Investigation Feasibility Study (RI/FS) in 1994. The Company submitted the Draft Final FS for Soil and Source Areas (Operable Unit 1) in September 2002. In addition, the Company has also submitted additional information regarding the remediation, most recently in October 2002. Discussions between USEPA and the Company are continuing. The Company is awaiting the issuance of a Record of Decision (ROD) from USEPA relating to the currently owned and formerly owned Company property and the proposed remediation. The final ROD will be issued sometime after the public comment period.

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 (DOE) took title to radiological contaminated materials and was to remediate, at its expense, all radiological waste on the Company's property in Maywood, New Jersey. The Maywood property (and portions of the surrounding area) were remediated by the DOE 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 a USACE Report to Congress dated January 1998 in which the USACE 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. Subsequent to the issuance of that report, the USACE advised the Company that it had requested legal advice from the Department of Justice as to the impact of the Agreement.

By letter dated July 28, 2000, the Department of Justice advised the Company that the USACE and USEPA had referred to the Justice Department claims against the Company for response costs incurred or to be incurred by the USACE, USEPA and the DOE in connection with the Maywood site and the Justice Department stated that the United States is entitled to recovery of its response costs from the Company under CERCLA. The letter referred to both radiological and non-radiological hazardous waste at the Maywood site and stated that the United States has incurred unreimbursed response costs to date of \$138 million. Costs associated with radiological waste at the Maywood site, which the Company believes represent all but a small portion of the amount referred to in the Justice Department letter, could be expected to aggregate substantially in excess of that amount. In the letter, the Justice Department invited the Company to discuss settlement of the matter in order to avoid the need for litigation. The Company

believes that its liability, if any, for such costs has been resolved by the aforesaid Agreement. Despite the fact that the Company continues to believe that it has no liability to the United States for such costs, discussions with the Justice Department are currently ongoing to attempt to resolve this matter.

The Company believes it has adequate reserves for claims associated with the Maywood site. However, depending on the results of the ongoing discussions regarding the Maywood site, the final cost of the remediation could differ from the current estimates.

The Company has been named as a potentially responsible party (PRP) in the case *USEPA v. Jerome Lightman* (92 CV 4710 D. N. J.) 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 was completed in March 2000. The Company is awaiting a decision from the court. If the Company is found liable at either site, a second trial as to the Company's allocated share of clean-up costs at these sites will likely be held in 2003. The Company believes it has adequate defenses to the issue of liability. In the event of an unfavorable outcome related to the issue of 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.

Regarding the D'Imperio Superfund Site, USEPA has indicated it will seek penalty claims against the Company based on the Company's alleged noncompliance with the modified Unilateral Administrative Order. The Company is currently negotiating with USEPA to settle its proposed penalty against the Company but does not believe that a settlement, if any, will have a material impact on the financial condition of the Company. In addition, the Company also received notice from the New Jersey Department of Environmental Protection (NJDEP) dated March 21, 2001, that NJDEP has indicated it will pursue cost recovery against the alleged responsible parties, including the Company. The NJDEP's claims include costs related to remediation of the D'Imperio Superfund Site in the amount of \$434,406 and alleged natural resource damages in the amount of \$529,584 (as of November 3, 2000). The NJDEP settled such claims against the alleged responsible parties, resulting in the Company paying its portion of \$83,061 in July 2002. This payment is subject to reallocation after the allocation phase of the above-identified trial, if any. The payment did not have a material impact on the financial condition of the Company.

The Company received a Section 104(e) Request for Information from USEPA dated March 21, 2000, regarding the Lightman Drum Company Site located in Winslow Township, New Jersey. The Company responded to this request on May 18, 2000. In addition, the Company received a Notice of Potential Liability and Request to Perform RI/FS dated June 30, 2000, from USEPA. The Company has decided that it will participate in the performance of the RI/FS. However, based on the current information known regarding this site, the Company is unable to predict what its liability, if any, will be for this site.

The Company received a General Notice of Potential Liability letter from the USEPA dated October 18, 2002, regarding the Liquid Dynamics Site located in Chicago, Illinois. The Company submitted a response to USEPA on November 5, 2002, stating that it is interested in negotiating a resolution of its potential responsibility at this site. Based on the fact that the

Company believes it is de minimis at this site, the Company believes that a resolution of its liability at this site will not have a material impact on the financial condition of the Company.

As reported previously in the Company's Quarterly Report Form 10-Q for the quarter ended September 30, 1994 and various subsequent reports, the Company received a Request for Information from the Commonwealth of Massachusetts Department of Environmental Protection relating to the Company's formerly-owned site at 51 Eames Street, Wilmington, Massachusetts. The Company received a copy of another Request for Information regarding this site dated October 18, 2002. The Company's response to this request was filed on December 20, 2002. The Company is currently investigating this matter and therefore, cannot predict what its liability, if any, will be for this site.

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, 2002.

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.

Mr. F. Quinn Stepan has served the Company as Chairman and Chief Executive Officer since 1984. He served as President and Chief Operating Officer from 1973 until February 15, 1999.

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.

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

Effective January 1, 2001, Robert J. Wood was elected Vice President and General Manager – Polymers. From April 1988 until March 1996, he served as a Business Manager – Polyols. From March 1996 until January 1, 2001, he served as Director – Polyols.

Effective March 7, 2001, F. Samuel Eberts III was elected Vice President, General Counsel and Secretary. From 1992 until 1996, he served as an Assistant General Counsel for Baxter International Inc. From 1996 until 1998, he served as an Associate General Counsel for Allegiance Healthcare Corporation. From 1998 until 2001, he served as an Assistant General Counsel for Cardinal Health Inc.

Effective July 1, 2001, Anthony J. Zoglio was elected Vice President – Manufacturing and Engineering. From 1991 until June 1, 1999, he served as Millsdale Plant Manager. From June 1, 1999 to July 1, 2001, he served as Vice President, Plant Operations.

Effective February 11, 2002, James E. Hurlbutt was elected Vice President and Corporate Controller. From August 7, 1996 until February 11, 2002, he served as Controller – International and Tax Accounting.

Walter J. Klein retired on April 30, 2002. Before the retirement, he served as Vice President – Finance.

James A. Hartlage retired on July 31, 2002. Before the retirement, he served as Senior Vice President – Technology and Operations.

The Executive Officers of the Company, their ages as of February 28, 2003, and certain other information are as follows:

<u>Name</u>	<u>Age</u>	<u>Title</u>	<u>Year First Elected Officer</u>
F. Quinn Stepan	65	Chairman and Chief Executive Officer	1967
F. Quinn Stepan, Jr.	42	President and Chief Operating Officer	1997
John V. Venegoni	44	Vice President and General Manager – Surfactants	1999
F. Samuel Eberts III	43	Vice President, General Counsel and Secretary	2001
Robert J. Wood	45	Vice President and General Manager – Polymers	2001
Anthony J. Zoglio	57	Vice President – Manufacturing and Engineering	2001
James E. Hurlbutt	49	Vice President and Corporate Controller	2002

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 table below for quarterly market price information.

Quarterly Stock Data

Quarter	Stock Price Range			
	2002		2001	
	High	Low	High	Low
First	\$26.85	\$23.55	\$24.75	\$22.35
Second	\$28.35	\$25.62	\$26.20	\$23.10
Third	\$29.21	\$24.65	\$26.38	\$17.98
Fourth	\$28.40	\$24.73	\$24.40	\$17.80
Year	\$29.21	\$23.55	\$26.38	\$17.80

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 8 of the Consolidated Financial Statements (Item 8 of this Form 10-K) for a description of the preferred stockholders' rights.

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

(b) On February 28, 2003, there were 1,392 holders of common stock of the Company.

(c) See table below for quarterly dividend information. Also, see Note 5 of the Consolidated Financial Statements (Item 8 of this Form 10-K), which sets forth the restrictive covenants covering dividends.

Dividends Paid Per Common Share

Quarter	2002	2001
First	18.25¢	17.50¢
Second	18.25¢	17.50¢
Third	18.25¢	17.50¢
Fourth	19.00¢	18.25¢
Year	73.75¢	70.75¢

Item 6. Selected Financial Data

See the table below for selected financial information.

(In thousands, except per share and employee data)

<i>For the Year</i>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Net Sales	\$ 748,539	\$ 711,517	\$ 698,937	\$ 694,659	\$ 635,756
Operating Income	33,930	30,832	31,358	42,022	45,088
Percent of Net Sales	4.5%	4.3%	4.5%	6.0%	7.1%
Pre-tax Income	30,268	25,798	24,475	35,768	39,090
Percent of Net Sales	4.0%	3.6%	3.5%	5.1%	6.1%
Provision for Income Taxes	10,139	9,726	9,423	13,043	15,440
Net Income	20,129	16,072	15,052	22,725	23,650
Per Diluted Share ^(a)	2.05	1.65	1.53	2.21	2.21
Percent of Net Sales	2.7%	2.3%	2.2%	3.3%	3.7%
Percent to Stockholders' Equity ^(b)	12.9%	10.6%	10.0%	15.4%	16.8%
Cash Dividends Paid	7,339	7,056	6,730	6,505	5,430
Per Common Share	0.7375	0.7075	0.6625	0.6125	0.5625
Depreciation and Amortization	40,117	39,972	39,277	39,452	37,347
Capital Expenditures	36,135	34,014	28,442	32,697	44,056
Weighted-average Common Shares Outstanding	8,861	8,837	8,948	9,232	9,499
<i>As of Year End</i>					
Working Capital	\$ 80,095	\$ 72,628	\$ 68,008	\$ 66,331	\$ 59,774
Current Ratio	1.8	1.7	1.7	1.7	1.7
Property, Plant and Equipment, net	211,050	211,433	198,147	208,481	214,096
Total Assets	439,667	438,755	417,592	418,762	408,919
Long-term Debt, less current maturities	104,304	109,588	96,466	107,420	107,708
Stockholders' Equity	158,829	154,351	149,059	150,906	143,631
Per share ^(c)	16.64	16.27	15.69	15.35	14.23
Number of Employees	1,529	1,491	1,387	1,365	1,372

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

(b) Based on average equity.

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

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

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.

Critical Accounting Policies***Estimates***

We prepare our financial statements in accordance with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”). Preparing our financial statements in accordance with generally accepted accounting principles requires us 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. Critical areas where estimates are required are noted below:

Environmental Liabilities:

It is the Company’s accounting policy to record environmental liabilities 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, 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.

Reserves for Doubtful Accounts:

Accounts receivable are reported net of reserves for doubtful accounts. The Company determines the reserve requirement based upon the estimated collectibility of specific delinquent accounts, the Company’s historical loss experience and the level of non-delinquent accounts receivable.

Reserves for Obsolete and Slow Moving Inventories:

The Company provides reserves for obsolete and slow moving inventory items. The reserve requirement is estimated based upon a review of specific inventory items that are identified as slow moving and consideration of potential salvage value and disposal costs.

Because the foregoing liabilities and reserves are recorded based on estimates, actual amounts could differ from these estimates.

Revenue Recognition

Revenue is recognized upon shipment of goods to customers, at which time title and risk of loss has passed to the customer. The Company records shipping and handling billed to a customer in a sales transaction as revenue. Costs incurred for shipping and handling are recorded in cost of sales. Volume discounts due customers are recognized as earned and reported as reductions of revenue in the statement of income.

Deferred Compensation

The Company maintains deferred compensation plans. These plans allow management to defer receipt of their bonuses and directors to defer receipt of director fees until retirement or departure from the Company. The plans allow the participant to choose to invest in either Stepan common stock or a limited variety of mutual funds. These assets are owned by the Company and subject to the claims of general creditors of the Company. These plans are accounted for under the requirements of the consensus reached by the Emerging Issues Task Force ("EITF") of the Financial Accounting Standards Board ("FASB") in issue No. 97-14, "Accounting for Deferred Compensation Arrangements Where Amounts Earned are Held in a Rabbi Trust and Invested". A description of the Company's deferred compensation accounting policy follows:

The deferred compensation liability to the participants who elect deferral is recorded when the underlying compensation is earned, and recorded as expense. The purchase of Stepan common shares for the plans is recorded as a regular treasury stock purchase. The purchase of mutual funds is recorded as other non-current assets.

Fluctuations in the value of these assets are recorded as adjustments for the deferred compensation liability and compensation costs included in administrative expense. The dividends, interest and capital gains from the mutual fund assets are recorded as investment income, which is netted against interest expense in the "Other Income" caption of the consolidated statements of income. Unrealized gains and losses resulting from market fluctuations of the mutual funds are recorded as other comprehensive income or expense in stockholders' equity.

Intangible Assets

The Company has intangible assets, which include patents, agreements not to compete, trademarks, customer lists and goodwill. These assets are accounted for under the requirements of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets". The goodwill acquired as a result of a business combination is not being amortized. Instead, goodwill is tested for impairment by applying a fair value based test on an annual basis. Upon adoption of SFAS No. 142 on January 1, 2002, our analysis reflected no impairment of goodwill. The provisions of SFAS No. 142 that apply to acquisitions made prior to June 30, 2001, were adopted on January 1, 2002. As a result the Company stopped recognizing approximately \$0.6 million of goodwill amortization expense in 2002. Also, SFAS No. 142 establishes new accounting guidelines for intangible assets that have indefinite useful lives. These assets are no longer subject to amortization, but must be tested for impairment on an annual basis. As of December 31, 2002, the Company does not have intangible assets with indefinite lives. All

intangible assets, other than goodwill, have finite useful lives and are being amortized in accordance with assigned useful lives.

Results of Operations

2002 Compared with 2001

Net sales for 2002 increased five percent from \$711.5 million in 2001 to \$748.5 million. Net sales by segment were as follows:

<i>(Dollars in thousands)</i>	2002	2001	Percent Change
Surfactants	\$ 599,436	\$ 558,927	+7
Polymers	124,332	127,722	-3
Specialty Products	24,771	24,868	—
Total	\$ 748,539	\$ 711,517	+5

Surfactants are a principal ingredient in consumer and industrial cleaning products such as detergents, shampoos, lotions, fabric softeners, toothpastes and cosmetics. Other applications include lubricating ingredients and emulsifiers for agricultural products, and plastics and composites.

Surfactants net sales, representing 80 percent of the Company's revenue, increased \$40.5 million, or seven percent, from \$558.9 million in 2001 to \$599.4 million in 2002, due primarily to a six percent rise in sales volume. Foreign operations net sales increased \$38.2 million, or 25 percent, from \$152.3 million in 2001 to \$190.5 million in 2002. A 34 percent increase in sales volume more than offset a six percent decrease in average prices and led to the net sales growth. Approximately \$32.2 million of the increase was due to the fourth quarter 2001 acquisition of Stepan UK Ltd. European operations, excluding the United Kingdom, and Canadian operations posted net sales increases of \$5.1 million and \$2.5 million, respectively. The effect of favorable exchange rate fluctuations (\$3.3 million) and increased sales volume led to the European operations net sales growth. The net sales increase for Canadian operations reflected higher sales volume. Latin American operations posted a \$1.6 million decrease in revenue due to a decline in sales volume. Domestic operations, which accounted for 68 percent of total surfactant revenues, reported a \$2.3 million, or one percent, increase in net sales, due to higher average prices, which offset a two percent decline in sales volume. The increase in average prices was primarily due to a more favorable sales mix. Sales volume declined due to lower demand for laundry and cleaning products.

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. Polyurethane polyols are also sold to the appliance, coatings, adhesives, sealants and elastomers markets.

Polymer net sales, accounting for 17 percent of the Company's revenue, decreased \$3.4 million, or three percent, from \$127.7 million in 2001 to \$124.3 million in 2002. The decrease was due to an 11 percent drop in average selling prices, which more than offset a nine percent increase in sales volume. Globally, polyurethane polyols net sales decreased \$3.4 million, or five percent, from \$75.5 million in 2001 to \$72.2 million in 2002. Sales volume decreased two percent. Domestic operations accounted for \$5.7 million of the decline. The decrease was due to a seven percent drop in sales volume coupled with a two percent decline in average selling prices. Foreign operations reported increased net sales based on improved sales volume, notably, a 44 percent increase in Europe. PA's net sales increased 12 percent to \$36.8 million in 2002 from \$32.8 million in 2001. A 33 percent gain in sales volume, due to increased market share, more than offset a 16 percent decrease in average selling prices. Lower raw material costs led to the average price decline. Polyurethane systems net sales fell \$4.1 million, or 21 percent, between years. A 23 percent decline in sales volume, due primarily to competitive losses at key accounts, led to the decrease.

Specialty products include flavors, emulsifiers and solubilizers used in the food and pharmaceutical industries. Net sales for the year were \$24.8 million, a slight decrease in comparison with \$24.9 million a year ago.

The Company's gross profit increased to \$122.5 million in 2002 from \$107.2 million in 2001. Surfactants gross profit was up \$13.7 million, or 18 percent, from \$74.5 million in 2001 to \$88.2 million in 2002. Domestic operations reported a \$6.2 million, or 11 percent, increase in gross profit due to higher average margins. Lower raw material costs led to the higher average margins. Gross profit for foreign operations rose \$7.5 million, or 40 percent, to \$26.0 million in 2002 from \$18.5 million in 2001. European operations contributed \$7.3 million to the improvement, of which \$5.7 million related to the previously noted Stepan UK acquisition. Latin American operations reported slightly higher gross profit due to improved average margins. Polymers gross profit increased \$1.8 million, or eight percent, between years. PA's gross profit increased \$1.2 million, or 36 percent, from \$3.2 million in 2001 to \$4.3 million in 2002. The rise was based on improved sales volume. Globally, polyurethane polyols gross profit increased \$2.1 million, or 11 percent, from \$18.6 million in 2001 to \$20.7 million in 2002. Domestic operations reported an increase of \$1.4 million, or seven percent, based on higher average margins, partially offset by lower sales volume. Lower raw material costs led to the margin improvement. European gross profit increased \$0.9 million based on improved average margins and higher sales volume, while Brazil's gross profit dropped \$0.2 million due to lower sales volume. Polyurethane systems gross profit declined \$1.4 million, or 30 percent, from year-to-year. Lower sales volume and average margins led to the decrease. Higher unit overhead costs resulting from decreased production volumes led to the decline in average margins. Specialty products reported a decrease of \$0.2 million in gross profit from year-to-year, mainly due to lower sales volume of higher margin products.

Operating income was \$33.9 million, a \$3.1 million, or ten percent, increase from 2001. Operating expenses, consisting of marketing, administrative and research and development expenses, increased \$12.2 million, or 16 percent, to \$88.6 million in 2002 from \$76.4 million in 2001. Administrative expenses rose \$7.1 million, or 25 percent, between years. U.S. expenses increased \$4.7 million, and foreign operations expenses increased \$2.4 million. The U.S. increase reflected higher enterprise resource planning (ERP) system implementation expense (\$1.5 million), legal expense (\$0.5 million) and depreciation expense (\$1.0 million – primarily for the ERP system). A \$1.9 million decrease in insurance recoveries also contributed to the U.S. increase. Stepan UK Ltd., which was first

consolidated in the fourth quarter of 2001, accounted for \$2.1 million of the foreign operations increase. Marketing expenses rose \$3.0 million, or 12 percent, between years. The rise reflected a \$1.2 million increase for Stepan UK. Higher U.S. payroll costs (\$1.0 million) and bad debt expense (\$0.6 million) also contributed. Research and development expenses increased \$2.0 million, or nine percent, between years, primarily due to higher payroll costs.

Interest expenses rose \$0.3 million, or five percent, from year-to-year. Lower overall borrowing rates and lower average debt levels were more than offset by decreased interest and investment income.

Philippine joint venture equity income increased to \$3.6 million in 2002 from \$1.9 million a year ago. The rise was due to royalty income and higher equity income generated by higher sales volume.

Pretax income increased \$4.5 million, or 17 percent, to \$30.3 million in 2002 from \$25.8 million in 2001.

The effective tax rate was 33.5 percent in 2002 compared to 37.7 percent in 2001. The lower effective tax rate was primarily attributable to a decrease in the effective tax rate on European earnings and a higher U.S. tax benefit realized on export sales. A decrease in the overall state apportionment factor also contributed to the lower effective tax rate.

Net income for the year was \$20.1 million, or \$2.05 per diluted share, compared with \$16.1 million, or \$1.65 per diluted share, a year ago.

2001 Compared with 2000

Net sales for 2001 increased two percent from \$698.9 million in 2000 to \$711.5 million in 2001. Net sales by segment were as follows:

<i>(Dollars in thousands)</i>	<u>2001</u>	<u>2000</u>	<i>Percent Change</i>
Surfactants	\$ 558,927	\$ 537,006	+4
Polymers	127,722	140,786	-9
Specialty Products	24,868	21,145	+18
Total	\$ 711,517	\$ 698,937	+2

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 agricultural products, and plastics and composites.

Surfactants net sales, representing 79 percent of the Company's revenue, increased \$21.9 million, or four percent, due to a four percent rise in sales volume. Foreign operations accounted for the overall improvement, reporting a \$32.5 million, or 27 percent, rise in net sales due to a 28 percent increase in sales volume. Approximately \$14.7 million of the foreign improvement was attributable to the fourth quarter acquisition of Stepan UK Limited (formerly Manro Performance Chemicals) located in Stalybridge, UK. In addition, all other foreign subsidiaries reported increased net sales, primarily due to higher sales volumes. European operations, excluding the United Kingdom, posted a net increase of \$8.6 million. Net sales for South American operations grew \$4.5 million, while net sales for Mexico

and Canada increased \$2.6 million and \$2.1 million, respectively. Domestic operations, which accounted for 73 percent of total surfactant revenues, reported a \$10.6 million, or three percent, decline in net sales from \$417.2 million in 2000 to \$406.6 million in 2001. The decrease was due to a one percent drop in sales volume and a one percent decline in average selling prices. Lower demand for laundry and cleaning products and increased market competition led to the decline. The economic slowdown adversely impacted sales volume of higher margin industrial surfactants.

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. Polyurethane polyols are also sold to the appliance, coatings, adhesives, sealants and elastomers markets.

Polymer net sales, accounting for 18 percent of the Company's revenue, decreased \$13.1 million, or nine percent, from \$140.8 million in 2000 to \$127.7 million in 2001. The decline was due to a 13 percent drop in sales volume, driven primarily by a slowdown in the U.S. economy. PA's net sales decreased 21 percent to \$32.8 million for 2001 from \$41.4 million in 2000. A 24 percent decline in sales volume accounted for the decrease. Polyurethane systems net sales fell 15 percent to \$19.4 million for 2001 from \$22.7 million in 2000. A drop in sales volume accounted for the decline and more than offset an increase in average selling prices. Globally, polyurethane polyols net sales decreased \$1.2 million, or one percent, between years from \$76.7 million in 2000 to \$75.5 million in 2001. Domestic net sales fell less than one percent due to a five percent decrease in sales volume, partially offset by an increase in average selling prices. European operations reported a decline in revenue due to an 11 percent drop in average selling prices, which offset a two percent gain in sales volume. Continued market pressures led to the average selling price drop.

Specialty products include flavors, emulsifiers and solubilizers used in the food and pharmaceutical industries. Net sales for the year were \$24.9 million, a rise of \$3.7 million, or 18 percent, over 2000. Higher average selling prices coupled with a slightly higher sales volume led to the growth in revenue.

Gross profit decreased to \$107.2 million in 2001 from \$112.0 million in 2000. Surfactants gross profit was down \$4.8 million, or six percent, from \$79.3 million in 2000 to \$74.5 million in 2001. Domestic operations reported an \$8.9 million decline in gross profit due primarily to a drop in average margins. Lower sales volume also contributed. The decrease in average margins was mainly due to weaker sales mix and higher energy costs. Higher margin industrial surfactants sales volume declined as the economy slowed down through the final quarter of 2001. Gross profit for foreign surfactants increased \$4.1 million, or 29 percent, from year-to-year. A 28 percent improvement in sales volume caused the increase in gross profit. The newly acquired United Kingdom subsidiary contributed \$1.9 million of the foreign increase. European operations, excluding United Kingdom, and South American operations contributed \$1.0 million and \$0.7 million, respectively, of the gross profit gain. Polymers gross profit declined \$4.1 million, or 15 percent, from \$27.9 million in 2000 to \$23.8 million in 2001. Gross profit for PA declined 50 percent to \$3.2 million in 2001 from \$6.4 million in 2000. Lower sales volume and lower average margins accounted for the drop. Higher unit overhead costs resulting from decreased production volume coupled with some price reductions resulting from competitive situations led to the declined average margins. Global polyurethane polyols gross profit fell \$0.3 million, or two percent, between years. Domestic operations reported an increase of \$0.2 million, or one percent, in

gross profit due to improved average margins that more than offset lower sales volume. Foreign operations gross profit fell \$0.6 million on reduced average margins that more than offset higher sales volume. Polyurethane systems gross profit declined eight percent on lower sales volume. Improved average margins due to an average selling price increase and favorable sales mix partially offset the impact of lower sales volume. Specialty products reported an increase of \$4.1 million in gross profit from year-to-year. The improvement was due to higher sales volume of higher margin products.

Operating income was \$30.8 million, a \$0.5 million, or two percent, decrease in comparison with 2000. Operating expenses, consisting of marketing, administrative and research and development expenses, decreased five percent between years. Administrative expenses declined \$4.2 million, or 13 percent, from those reported in the prior year. A \$7.5 million decline in legal and environmental expense, partially offset by \$4.7 million of 2001 expense for the implementation of an enterprise resource planning system, accounted for most of the decrease between years. The drop in legal and environmental expense was primarily due to \$6.1 million of prior year expense related to the Company's Maywood, New Jersey, site that was non-recurring in 2001. In addition, current year expense was reduced by insurance recoveries received of \$2.0 million, somewhat offset by a \$0.5 million year-to-year increase in general legal expenses. Marketing expenses declined one percent between years and research and development expenses remained almost unchanged.

Interest expenses declined nine percent from year-to-year due to lower overall borrowing rates coupled with lower average debt levels, partially offset by decreased investment income.

Philippine joint venture equity income rose \$1.2 million between years. The improvement was largely due to reduced foreign exchange losses resulting from a devaluation of the Philippine peso in 2000.

Pretax income increased \$1.3 million, or five percent, to \$25.8 million in 2001 from \$24.5 million in 2000.

The effective tax rate was 37.7 percent in 2001 compared to 38.5 percent in 2000. The lower effective tax rate was primarily attributable to Philippine tax benefits realized during 2001 (see Note 7 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 \$16.1 million, or \$1.65 per diluted share, compared with \$15.1 million, or \$1.53 per diluted share, a year ago. The acquisition of Stepan UK Limited added \$0.4 million to net income, or \$0.04 per diluted share.

Fourth Quarter 2002 Compared with 2001

For the quarter ended December 31, 2002, the Company reported net income of \$2.4 million, or a \$0.25 per diluted share, compared with \$0.1 million, or a \$0.01 loss per diluted share, in the fourth quarter of 2001. Net sales increased four percent to \$185.2 million in the fourth quarter of 2002 from \$178.1 million a year ago. Net sales for surfactants increased \$6.2 million, or four percent. Both foreign and domestic surfactants reported an increase in revenues. European operations accounted for most of the increase. The effect of favorable exchange rate fluctuations coupled with improved sales volume led to the net sales growth. Domestic surfactants net sales increased due to a rise in average selling prices on more favorable sales mix. Surfactants gross profit increased \$3.1 million, or 18 percent, in the fourth quarter of 2002 from the fourth quarter of 2001. Higher average margins led to the increase. Lower raw material costs accounted for most of the improvement. Gross profit for polymers increased \$0.1 million, or two percent, between quarters due to an increase in sales volume,

which more than offset a decline in average margins. Gross profit for specialty products declined \$1.1 million between quarters. Lower sales volume of higher margin products led to the decrease. Operating expenses declined \$1.3 million, or five percent, between quarters. Administrative expenses dropped \$3.4 million, or 27 percent, in comparison with the fourth quarter of 2001. A \$3.4 million decrease of deferred compensation expenses, coupled with a \$1.9 million reduction in expenses associated with the implementation of an enterprise resource planning system, accounted for the decrease. The decline was partially offset by increases in legal (\$0.5 million), payroll costs (\$0.5 million), depreciation (\$0.5 million), and audit expenses (\$0.4 million). Marketing expenses increased \$1.5 million, or 24 percent, from quarter-to-quarter. Increased payroll costs and bad debt provision led to the rise. Research and development expenses increased \$0.6 million, or ten percent, between quarters. Philippine joint venture equity income increased \$0.4 million, or 57 percent, from quarter-to-quarter. The rise was due to higher equity income based on improved sales volume.

Interest expenses increased \$0.5 million between quarters. The increase was due to higher overall borrowing rates, partially offset by lower debt levels.

Liquidity and Financial Condition

Net cash from operations for 2002 totaled \$46.1 million compared to \$54.1 million for 2001. Working capital required the use of \$12.1 million for the current year, compared to a cash use of \$0.6 million last year. During 2002, accounts receivable decreased by \$3.9 million due primarily to improved current year-end collections. The Company increased its inventories by \$8.6 million to support customer service levels. Accounts payable and accrued liabilities decreased by \$5.8 million and other current assets increased by \$1.6 million.

Capital spending, excluding acquisitions, totaled \$36.1 million in 2002 compared to \$34.0 million for 2001. Current year expenditures included \$7.1 million for an enterprise resource planning (ERP) system. Looking ahead, capital expenditures are projected to increase in 2003 due to higher non-ERP spending.

Consolidated debt was down by \$2.6 million from year to year, from \$120.3 million to \$117.7 million. At December 31, 2002, the ratio of long-term debt to long-term debt plus shareholders' equity was 39.6 percent, compared to 41.5 percent one year earlier.

The Company maintains contractual relationships with its domestic banks that provide for revolving credit of up to \$60 million, which may be drawn upon as needed for general corporate purposes through May 2, 2007 under a revolving credit agreement. At December 31, 2002, there were no borrowings under this revolving credit agreement. The Company also meets short-term liquidity requirements through uncommitted domestic 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.

Outlook

The uncertain economy and its impact on raw material costs and the increased internal surfactant production capacity among some U.S. customers will provide a challenge for 2003 earnings growth prospects. On the positive side, there has been increased interest in the Company's fabric softener technology, which should be commercialized during 2003. In addition, ERP system implementation costs should decline by approximately \$2.8 million after tax. The Company will continue to pursue profitable global niche opportunities that complement or enhance its global capabilities.

Environmental and Legal Matters

The Company is subject to extensive federal, state and local environmental laws and regulations. Although the Company's environmental policies and practices are designed to ensure compliance with these laws and regulations, future developments and increasingly stringent environmental regulation could require the Company to make additional unforeseen environmental expenditures. The Company will continue to invest in the equipment and facilities necessary to comply with existing and future regulations. During 2002, the Company's expenditures for capital projects related to the environment were \$1.5 million. These projects are capitalized and depreciated over their estimated useful lives, which is typically 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 \$8.5 million for 2002 and \$7.9 million for 2001. 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 18 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. It is the Company's accounting policy to record liabilities 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, 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. Because reported liabilities are recorded based on estimates, actual amounts could differ from those estimates. After partial remediation payments at certain sites, the Company has estimated a range of possible environmental and legal losses from \$7.5 million to \$35.1 million at December 31, 2002, compared to \$7.4 million to \$35.0 million at December 31, 2001. At December 31, 2002 the Company's reserve was \$17.6 million for legal and environmental matters compared to \$17.0 million at December 31, 2001. During 2002, non-capital expenditures related to legal and environmental matters approximated \$3.0 million compared to \$2.6 million expended in 2001.

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 2002 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. See also Note 13, Contingencies, in the Notes to Consolidated Financial Statements for a summary of the environmental proceedings related to certain environmental sites.

Recent Accounting Pronouncements

In April 2001, the EITF released Issue No. 00-25, "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products." Issue No. 00-25 provides guidance regarding the reporting of consideration given by a vendor to a reseller of the vendor's products. This issue requires certain considerations from vendor to a reseller of the vendor's products be viewed: (a) as a reduction of the selling prices of the vendor's products and, therefore, be recorded as a reduction of revenue when recognized in the vendor's income statement, or (b) as a cost incurred by the vendor for assets or services received from the reseller and, therefore, be recorded as a cost or an expense when recognized in the vendor's income statement. Issue No. 00-25 is effective for fiscal years beginning after December 15, 2001. The Company's accounting policies have historically been consistent with the guidance provided in this issue; and, therefore, the adoption of Issue No.00-25 did not have an impact on the Company's financial position or results of operations.

In June 2001, the FASB issued SFAS No. 141, "Business Combinations," effective for acquisitions entered into after June 30, 2001. SFAS No. 141 requires the use of the purchase method of accounting for all transactions. The Company has applied the provisions of SFAS No. 141 to the September 13, 2001, acquisition of Manro Performance Chemicals in Stalybridge, UK, and the November 2002 acquisition of the quaternary biocides and specialty surfactants business from Pentagon Chemicals Specialties based in the United Kingdom. See Note 2, Acquisitions, in Notes to Consolidated Financial Statements.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143, which is effective for fiscal years beginning after June 15, 2002, supersedes previous guidance for financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The statement applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset. The Company has determined that adoption of SFAS No. 143 will have no impact on its financial position or results of operations.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment of Disposal of Long-Lived Assets". This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." SFAS No. 144 was effective January 1, 2002. Adoption of this standard did not have an impact on the Company's financial position or results of operations.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". The standard requires companies to recognize costs associated with

exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. Based on the information currently available, adoption of this standard is not expected to have an impact on the Company's financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure". This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosure about the method of accounting and the effect of the method used on reported results. SFAS No. 148 is effective for fiscal years ending after December 15, 2002. Adoption of this standard is not expected to have an impact on the Company's financial position or results of operations, as the Company has decided not to adopt the fair value based method of accounting for stock-based compensation at this time.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

FOREIGN CURRENCY EXCHANGE RISK

Because the Company operates in the global marketplace, its cash flows and operating results are exposed to foreign currency fluctuations. The Company manufactures and sells products in many foreign locations and, therefore, believes its currency exchange risk is well diversified. Except as noted below, substantially all the Company's foreign subsidiaries' financial instruments are denominated in their respective functional currencies. As such, exposure to exchange rate risk on foreign currency financial instruments is not considered significant. Gains or losses on unhedged foreign currency transactions are included in income.

The Company and its foreign subsidiaries periodically use short-term forward exchange contracts to limit the exposure of certain foreign currency transactions and balances to fluctuating exchange rates. As of December 31, 2002, the Company had no outstanding forward exchange contracts.

From time to time, the Company extends U.S. dollar denominated loans or extended trade receivables to its foreign subsidiaries. Gains or losses on such transactions are recorded in income. As of December 31, 2002, the Company had an outstanding loan balance of \$8.9 million due from its European subsidiary and trade receivables of \$1.5 million due from its Brazilian subsidiary. A hypothetical fluctuation of 10 percent in the exchange rate of the euro or the Brazilian real would result in a gain or loss of \$0.9 million or \$0.2 million, respectively.

INTEREST RATES

The Company's debt was composed of fixed-rate and variable-rate borrowings totaling \$104.5 million and \$13.2 million, respectively, as of December 31, 2002. For 2003, it is projected that interest on variable-rate borrowings will comprise about 19 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 \$113.4 million as of December 31, 2002, which was approximately \$8.9 million above 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, 2002, or \$2.8 million. Such a rate decrease would be immaterial to future operating results or cash flow.

COMMODITY PRICE RISK

Certain raw materials used in the manufacture of the Company's products are subject to price volatility caused by weather, petroleum prices and other unpredictable factors. In many cases, the Company has the ability to pass on raw material price increases to customers. Therefore, commodity financial instruments are generally not used for raw material purchases. Periodically, firm purchase commitments are entered into which fix the price of a specific commodity that will be delivered at a future time. Such commitments usually cover only a portion of the Company's anticipated requirements. Commodity future and forward contracts are used to a limited extent,

most often to aid in managing the Company's utility costs. As of December 31, 2002, unrealized gains and losses related to such contracts were not material. A hypothetical 10 percent fluctuation in the price of commodities covered by firm commitments and forward contracts would have an immaterial effect on the Company's financial position, results of operations and cash flow.

Item 8. Financial Statements and Supplementary Data

The following statements and data are included in this item:

Report of Management

Independent Auditors' Report

Consolidated Balance Sheets (December 31, 2002 and 2001)

Consolidated Statements of Income (For years ended December 31, 2002, 2001 and 2000)

Consolidated Statements of Cash Flow (For years ended December 31, 2002, 2001 and 2000)

Consolidated Statements of Stockholders' Equity (For years ended December 31, 2002, 2001 and 2000)

Notes to Consolidated Financial Statements

Selected Quarterly Financial Data

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 accounting principles generally accepted in the United States of America, which are 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 accounting and auditing matters, 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

James E. Hurlbutt
Vice President & Corporate Controller

February 10, 2003

Independent Auditors' Report

To the Board of Directors and Stockholders of Stepan Company
Northfield, Illinois

We have audited the accompanying consolidated balance sheets of Stepan Company and subsidiaries (the "Company") as of December 31, 2002 and 2001 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2002. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Stepan Company and subsidiaries as of December 31, 2002 and 2001 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 3, effective January 1, 2002 the Company changed its method of accounting for goodwill and intangible assets upon adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

DELOITTE & TOUCHE LLP

Chicago, Illinois
February 10, 2003

Stepan Company
Consolidated Balance Sheets
December 31, 2002 and 2001

(Dollars in thousands)

	2002	2001
Assets		
Current Assets:		
Cash and cash equivalents	\$ 3,188	\$ 4,224
Receivables, less allowances of \$2,696 in 2002 and \$2,272 in 2001	99,249	103,190
Inventories (Note 4)	67,985	59,330
Deferred income taxes (Note 7)	7,850	8,810
Other current assets	6,840	5,233
Total current assets	185,112	180,787
Property, Plant and Equipment:		
Land	6,433	6,156
Buildings and improvements	77,080	75,720
Machinery and equipment	599,852	564,150
Construction in progress	18,924	20,091
	702,289	666,117
Less: accumulated depreciation	491,239	454,684
Property, plant and equipment, net	211,050	211,433
Goodwill, net (Note 3)	6,753	6,100
Other intangible assets, net (Note 3)	13,349	13,293
Other non-current assets	23,403	27,142
Total assets	\$ 439,667	\$ 438,755
Liabilities and Stockholders' Equity		
Current Liabilities:		
Current maturities of long-term debt (Note 5)	\$ 13,387	\$ 10,745
Accounts payable	51,516	62,410
Accrued liabilities (Note 11)	40,114	35,004
Total current liabilities	105,017	108,159
Deferred income taxes (Note 7)	20,065	28,603
Long-term debt, less current maturities (Note 5)	104,304	109,588
Other non-current liabilities (Note 12)	51,452	38,054
Stockholders' Equity (Note 8):		
5½ percent convertible preferred stock, cumulative, voting, without par value; authorized 2,000,000 shares; issued and outstanding 582,632 shares in 2002 and 583,252 shares in 2001	14,566	14,581
Common stock, \$1 par value; authorized 30,000,000 shares; issued 9,742,211 shares in 2002 and 9,604,003 shares in 2001	9,742	9,604
Additional paid-in capital	19,358	16,531
Accumulated other comprehensive loss (Note 1)	(25,109)	(15,870)
Retained earnings (approximately \$36,513 unrestricted in 2002 and \$48,987 in 2001)	157,448	144,658
Less: Treasury stock, at cost, 861,476 shares in 2002 and 782,232 shares in 2001	(17,176)	(15,153)
Stockholders' equity	158,829	154,351
Total liabilities and stockholders' equity	\$ 439,667	\$ 438,755

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

Stepan Company
Consolidated Statements of Income
For the years ended December 31, 2002, 2001 and 2000

(In thousands, except per share amounts)

	2002	2001	2000
Net Sales (Note 1)	\$ 748,539	\$ 711,517	\$ 698,937
Cost of Sales	626,013	604,288	586,911
Gross Profit	122,526	107,229	112,026
Operating Expenses:			
Marketing	27,920	24,884	25,166
Administrative	35,779	28,644	32,822
Research, development and technical services (Note 1)	24,897	22,869	22,680
	88,596	76,397	80,668
Operating Income	33,930	30,832	31,358
Other Income (Expenses):			
Interest, net (Note 5)	(7,239)	(6,903)	(7,586)
Income from equity in joint venture	3,577	1,869	703
	(3,662)	(5,034)	(6,883)
Income Before Provision for Income Taxes	30,268	25,798	24,475
Provision for Income Taxes (Note 7)	10,139	9,726	9,423
Net Income	\$ 20,129	\$ 16,072	\$ 15,052
Net Income Per Common Share (Note 15):			
Basic	\$ 2.18	\$ 1.73	\$ 1.59
Diluted	\$ 2.05	\$ 1.65	\$ 1.53
Shares Used to Compute Net Income Per Common Share (Note 15):			
Basic	8,861	8,837	8,948
Diluted	9,802	9,721	9,829

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

Stepan Company
Consolidated Statements of Cash Flows
For the years ended December 31, 2002, 2001 and 2000

(Dollars in thousands)

	2002	2001	2000
Cash Flows From Operating Activities			
Net income	\$ 20,129	\$ 16,072	\$ 15,052
Depreciation and amortization	40,117	39,972	39,277
Recognition of deferred revenues	(459)	(470)	(1,761)
Deferred income taxes	(466)	(2,384)	(4,282)
Environmental and legal liabilities	311	331	5,069
Other non-cash items	(1,460)	1,131	2,085
Changes in working capital:			
Receivables, net	3,941	6,062	(1,399)
Inventories	(8,655)	(167)	(7,255)
Accounts payable and accrued liabilities	(5,784)	(5,427)	7,723
Other current assets	(1,607)	(1,042)	201
Net Cash Provided By Operating Activities	46,067	54,078	54,710
Cash Flows From Investing Activities			
Expenditures for property, plant and equipment	(36,135)	(34,014)	(28,442)
Business acquisitions, net of cash acquired	(2,185)	(24,640)	—
Other non-current assets	2,833	(131)	(1,830)
Net Cash Used In Investing Activities	(35,487)	(58,785)	(30,272)
Cash Flows From Financing Activities			
Revolving debt and notes payable to banks, net	(35,200)	22,200	(1,500)
Other debt borrowings	41,394	1,188	—
Other debt repayments	(8,836)	(9,107)	(7,531)
Purchases of treasury stock, net	(2,023)	(4,632)	(9,548)
Dividends paid	(7,339)	(7,056)	(6,730)
Stock option exercises	2,599	3,151	1,397
Loan costs	(452)	—	—
Net Cash Provided By (Used In) Financing Activities	(9,857)	5,744	(23,912)
Effect of Exchange Rate Changes on Cash	(1,759)	(349)	(959)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,036)	688	(433)
Cash and Cash Equivalents at Beginning of Year	4,224	3,536	3,969
Cash and Cash Equivalents at End of Year	\$ 3,188	\$ 4,224	\$ 3,536
Supplemental Cash Flow Information			
Cash payments of income taxes, net of refunds	\$ 9,489	\$ 11,652	\$ 13,262
Cash payments of interest	\$ 7,236	\$ 7,862	\$ 8,775

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

Stepan Company
Consolidated Statements of Stockholders' Equity
For the years ended December 31, 2002, 2001 and 2000

<i>(Dollars in thousands)</i>	Convertible Preferred Stock	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Retained Earnings	Comprehensive Income
Balance January 1, 2000	\$ 19,575	\$ 9,685	\$ 11,391	\$(15,332)	\$ (10,653)	\$136,240	—
Sale of 113,950 shares of common stock under stock option plan	—	114	1,283	—	—	—	—
Purchase of 421,069 shares of common and 16,015 shares of preferred treasury stock, net of sales	—	—	(117)	(9,548)	—	—	—
Retirement of shares of treasury stock:							
400,000 shares of common treasury stock	—	(400)	(535)	8,975	—	(8,010)	—
188,535 shares of preferred stock	(4,713)	—	239	5,384	—	(910)	—
Conversion of preferred stock to common stock	(275)	12	262	—	—	—	—
Net income	—	—	—	—	—	15,052	\$ 15,052
Other comprehensive loss:							
Foreign currency translation adjustments	—	—	—	—	(1,771)	—	(1,771)
Unrealized gain (loss) on securities	—	—	—	—	(604)	—	(604)
Comprehensive income	—	—	—	—	—	—	\$ 12,677
Cash dividends paid:							
Preferred stock (\$1.375 per share)	—	—	—	—	—	(815)	—
Common stock (66.25¢ per share)	—	—	—	—	—	(5,915)	—
Non-qualified stock option income tax benefit	—	—	475	—	—	—	—
Balance, December 31, 2000	14,587	9,411	12,968	(10,521)	(13,028)	135,642	—
Sale of 192,650 shares of common stock under stock option plan	—	193	2,958	—	—	—	—
Purchase of 210,865 shares of common stock, net of sales	—	—	(5)	(4,632)	—	—	—
Conversion of preferred stock to common stock	(6)	—	6	—	—	—	—
Net income	—	—	—	—	—	16,072	\$ 16,072
Other comprehensive loss:							
Foreign currency translation adjustments	—	—	—	—	(1,414)	—	(1,414)
Unrealized gain (loss) on securities	—	—	—	—	(444)	—	(444)
Minimum pension liability adjustment (net of income taxes of \$595)	—	—	—	—	(984)	—	(984)
Comprehensive income	—	—	—	—	—	—	\$ 13,230
Cash dividends paid:							
Preferred stock (\$1.375 per share)	—	—	—	—	—	(802)	—
Common stock (70.75¢ per share)	—	—	—	—	—	(6,254)	—
Non-qualified stock option income tax benefit	—	—	604	—	—	—	—
Balance, December 31, 2001	14,581	9,604	16,531	(15,153)	(15,870)	144,658	—
Sale of 137,501 shares of common stock under stock option plan	—	138	2,461	—	—	—	—
Purchase of 79,244 shares of common stock, net of sales	—	—	—	(2,023)	—	—	—
Conversion of preferred stock to common stock	(15)	—	15	—	—	—	—
Net income	—	—	—	—	—	20,129	\$ 20,129
Other comprehensive loss:							
Foreign currency translation adjustments	—	—	—	—	1,489	—	1,489
Unrealized gain (loss) on securities	—	—	—	—	(564)	—	(564)
Minimum pension liability adjustment (net of income taxes of \$6,807)	—	—	—	—	(10,164)	—	(10,164)
Comprehensive income	—	—	—	—	—	—	\$ 10,890
Cash dividends paid:							
Preferred stock (\$1.375 per share)	—	—	—	—	—	(802)	—
Common stock (73.75¢ per share)	—	—	—	—	—	(6,537)	—
Non-qualified stock option income tax benefit	—	—	351	—	—	—	—
Balance, December 31, 2002	\$ 14,566	\$ 9,742	\$ 19,358	\$(17,176)	\$ (25,109)	\$157,448	—

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

1. Summary of Significant Accounting Policies

Nature of Operations

Stepan Company ("the Company") 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, fabric softeners, toothpastes and household cleaners), paints, cosmetics, food and beverages, agricultural products, plastics, furniture, automotive equipment, insulation and refrigeration.

Principles of Consolidation

The consolidated financial statements include the accounts of the 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 this investment is included in consolidated net income.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less from the date of purchase to be cash equivalents.

Concentration of Credit Risks

The Company grants credit to its customers who are widely distributed across the Americas, Europe, Asia and the Pacific. The Company does not have any one customer whose business represents more than 10 percent of the Company's consolidated revenue. There is no material concentration of credit risk.

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 the Company's domestic inventories. The first-in, first-out (FIFO) method is used for all other inventories. Inventories priced at LIFO as of December 31, 2002 and 2001, amounted to 85 and 86 percent of total inventories, respectively.

Property, Plant and Equipment

Depreciation of physical properties is provided on a straight-line basis over the estimated useful lives of various assets. Lives used for calculating depreciation are 30 years for buildings, 15 years for building improvements and from three to 15 years for machinery and equipment. Major renewals and betterments are capitalized in the property accounts, while maintenance and repairs (\$17,869,000, \$19,366,000, and \$18,472,000 in 2002, 2001 and 2000, 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.

Included in property, plant and equipment are costs related to the acquisition and development of internal-use software. Capitalized costs include external direct costs of materials and services consumed in obtaining and developing the software. For development projects where major internal resources are committed, payroll and payroll-related costs incurred during the application development phase of the project are also capitalized. The capitalized costs are amortized over the useful lives of the software, which are generally three to ten years. Costs incurred in the preliminary project phase are expensed.

Interest charges on borrowings applicable to major construction projects are capitalized.

Revenue Recognition

Revenue is recognized upon shipment of goods to customers, at which time title and risk of loss has passed to the customer. The Company records shipping and handling billed to a customer in a sales transaction as revenue. Costs incurred for shipping and handling are recorded in cost of sales. Volume discounts due to customers are recognized as earned and reported as reductions of revenue in the statement of income.

Environmental Expenditures

Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that mitigate or prevent environmental contamination and that benefit future operations are capitalized. Capitalized expenditures are depreciated generally utilizing a 10 year life. 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, 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. Because reported liabilities are recorded based on estimates, actual amounts could differ from those estimates. Legal costs related to environmental matters are expensed as incurred. See Note 13, Contingencies.

Goodwill and Other Intangible Assets

Intangible assets include 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.

On January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets," which is effective for fiscal years beginning after December 15, 2001. This standard establishes new accounting and reporting requirements for goodwill and intangible assets including no amortization of goodwill, separate identification of certain identifiable intangible assets, and an annual assessment for impairment of all goodwill and intangible assets. The provisions of SFAS No. 142 that apply to acquisitions made prior to June 30, 2001, were adopted on January 1, 2002. As a result, the Company stopped recognizing approximately \$0.6 million of goodwill amortization expense in 2002. The Company has also completed the initial impairment test of goodwill and intangible assets. Results of this test indicated no impairment at January 1, 2002. See Note 3, Goodwill and Other Intangible Assets.

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 \$15,017,000, \$13,729,000 and \$13,383,000 and in 2002, 2001 and 2000, 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 enacted marginal tax rates. 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.

Long-Lived Assets

Operating assets and associated goodwill are written down to fair value whenever an impairment review indicates that the carrying value cannot be recovered on an undiscounted cash flow basis. No impairment loss has needed to be recognized for applicable assets of continuing operations.

Stock-Based Compensation

SFAS 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, no stock-based employee compensation cost is reflected in net income, as all options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provision of SFAS No. 123.

	For the Years Ended December 31		
	2002	2001	2000
(In thousands, except per share amounts)			
Net income, as reported	\$ 20,129	\$ 16,072	\$ 15,052
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	698	925	1,000
Net Income, pro forma	\$ 19,431	\$ 15,147	\$ 14,052
Earnings per share:			
Basic – as reported	\$ 2.18	\$ 1.73	\$ 1.59
Basic – pro forma	\$ 2.10	\$ 1.62	\$ 1.48
Diluted – as reported	\$ 2.05	\$ 1.65	\$ 1.53
Diluted – pro forma	\$ 1.99	\$ 1.56	\$ 1.44

The weighted-average fair value of options were \$6.19, \$6.22 and \$6.94 in 2002, 2001 and 2000, respectively. 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 2002, 2001 and 2000: expected dividend yield of 2.75 percent in 2002 and 2001 and 2.50 percent in 2000. Expected volatility of 23.5 percent in 2002, 24.2 percent in 2001, and 24.7 percent in 2000; expected lives of 7.5 years; and risk-free interest rate of 4.89 percent in 2002, 5.14 percent in 2001, and 6.72 percent in 2000.

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 (under the treasury stock method) and the conversion of the convertible preferred stock, when such conversion would have the effect of reducing earnings per share. See Note 15, 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 years ended December 31, 2002 and 2001, the Company's comprehensive income included net income, foreign currency translation gains and losses, unrealized gains and losses on securities, and a minimum pension liability adjustment. For the year ended December 31, 2000, the Company's comprehensive income included net income, unrealized gains and losses on securities, and foreign currency translation gains and losses. Comprehensive income is disclosed in the Consolidated Statements of Stockholders' Equity. At December 31, 2002, the total accumulated other comprehensive loss of \$25,109,000 was comprised of \$12,327,000 of foreign currency translation adjustments, \$1,634,000 of unrealized losses on securities and \$11,148,000 of minimum pension liability adjustments (net of income taxes of \$7,402,000). At December 31, 2001, the total accumulated other comprehensive loss of \$15,870,000 was comprised of \$13,816,000 of foreign currency translation adjustments, \$1,070,000 of unrealized losses on securities and \$984,000 of minimum pension liability adjustments (net of income taxes of \$595,000).

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 is also disclosed. See Note 14, Segment Reporting.

Derivative Instruments

In June 1998, the FASB issued SFAS No. 133, as amended, "Accounting for Derivative Instruments and Hedging Activities," effective for fiscal years beginning after June 15, 1999. The new standard establishes accounting and reporting requirements for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. Such instruments are to be recognized on the balance sheet as either an asset or a liability measured at fair value. Changes in fair value must be recognized currently in earnings or in other

comprehensive income if specific hedge criteria are met. Special accounting for qualifying hedges allows a derivative instrument's gains and losses to offset related results on the hedged item in the statement of income, to the extent effective. If a transaction is designated to receive hedge accounting, the Company must establish at the inception of the hedge the method it will use for assessing the effectiveness of the hedge and the measurement approach for determining the ineffective aspect of the hedge.

The Company has limited transactions that fall under the accounting rules of SFAS No. 133. Company policy prohibits the use of financial instruments for trading or speculative purposes. Periodically, the Company enters into forward contracts to minimize exposure related to changing natural gas prices for a portion of the natural gas requirements used in its production facilities. In addition, the Company's foreign subsidiaries make limited use of short-term forward exchange contracts to minimize the exposure of certain foreign currency transactions and balances to fluctuating exchange rates. As of December 31, 2002, the effects of the forward commodity and exchange contracts were not material to the Company's consolidated financial statements.

Deferred Compensation

The Company maintains deferred compensation plans. These plans allow management to defer receipt of their bonuses and directors to defer receipt of director fees until retirement or departure from the Company. The plans allow the participant to choose to invest in either Stepan common stock or a limited variety of mutual funds. These assets are owned by the Company and subject to the claims of general creditors of the Company. These plans are accounted for under the requirements of the consensus reached by the Emerging Issues Task Force ("EITF") of the FASB in issue No. 97-14, "Accounting for Deferred Compensation Arrangements Where Amounts Earned are Held in a Rabbi Trust and Invested". A description of the Company's deferred compensation accounting policy follows:

The deferred compensation liability to the participants who elect deferral is recorded when the underlying compensation is earned, and recorded as expense. The purchase of Stepan common shares for the plans is recorded as other non-current assets. The purchase of mutual funds is recorded as long term investments. The fair value of the mutual funds was \$6,552,000 at December 31, 2002, and \$7,674,000 at December 31, 2001. Fluctuations in the value of these assets are recorded as adjustments to the deferred compensation liability and compensation costs included in administrative expense. The dividends, interest and capital gains from the mutual fund assets are recorded as investment income, which is netted against interest expense in the "Other Income" caption of the consolidated statements of income. Unrealized gains and losses resulting from market fluctuations of the mutual funds are recorded as other comprehensive income or expense in stockholders' equity. Unrealized losses of \$564,000 and \$444,000 were recorded as other comprehensive expense in 2002 and 2001, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Recent Accounting Pronouncements

In April 2001, the EITF released Issue No. 00-25, "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products." Issue No. 00-25 provides guidance regarding the reporting of consideration given by a vendor to a reseller of the vendor's products. This issue requires certain considerations from vendor to a reseller of the vendor's products be viewed: (a) as a reduction of the selling prices of the vendor's products and, therefore, recorded as a reduction of revenue when recognized in the vendor's income statement, or (b) as a cost incurred by the vendor for assets or services received from the reseller and, therefore, recorded as a cost or an expense when recognized in the vendor's income statement. Issue No. 00-25 is effective for fiscal years beginning after December 15, 2001. The Company's accounting policies have historically been consistent with the guidance provided in this issue; and, therefore, the adoption of Issue No.00-25 on January 1, 2002, did not have an impact on the Company's financial position or results of operations.

In June 2001, the FASB issued SFAS No. 141, "Business Combinations," effective for acquisitions entered into after June 30, 2001. SFAS No. 141 requires the use of the purchase method of accounting for all transactions. The Company has applied the provisions of SFAS No. 141 to the September 13, 2001, acquisition of Manro Performance Chemicals in Stalybridge, UK and the November 2002 acquisition of quaternary biocides and specialty surfactants business from Pentagon Chemicals Specialties based in the United Kingdom. See Note 2, Acquisitions.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143, which is effective for fiscal years beginning after June 15, 2002, supersedes previous guidance for financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The statement applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset. The Company has determined that adoption of SFAS No. 143 will have no impact on its financial position or results of operations.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment of Disposal of Long-Lived Assets". This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS No. 144 was effective January 1, 2002. Adoption of this standard did not have an impact on the Company's financial position or results of operations.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. Based on the information currently available, adoption of this standard is not expected to have an impact on the Company's financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure". This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosure about the method of accounting and the effect of the method used on reported results. SFAS No. 148 is effective for fiscal years ending after December 15, 2002. Adoption of this standard is not expected to have an impact on the Company's financial position or results of operations, as the Company has decided not to adopt the fair value based method of accounting for stock-based compensation at this time.

Reclassifications

Certain amounts in the 2001 and 2000 financial statements have been reclassified to conform to the 2002 presentation.

2. Acquisitions

On September 13, 2001, the Company acquired the stock of Manro Performance Chemicals Limited based in Stalybridge, UK, and changed its name to Stepan UK Limited. Stepan UK Limited manufactures surfactants for a wide range of customers, and specializes in anionic surfactants, hydrotropes and acid catalysts.

The acquisition was accounted for as a purchase in accordance with SFAS No. 141. The acquisition cost was \$24.6 million, which was \$1.2 million in excess of the fair value of Stepan UK Limited net assets. The \$1.2 million excess acquisition cost over net assets was recorded as goodwill, which in accordance with SFAS No. 142, has not been amortized, but is subject to an annual test for impairment. The purchase price allocation was finalized in the first half of 2002. This acquisition was funded through the Company's committed lines of credit. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition.

At September 13, 2001 (Unaudited)

(In thousands)

Current assets	\$	13,937
Property, plant and equipment		17,950
Goodwill		1,211
		<hr/>
Total assets acquired	\$	33,098
		<hr/>
Current liabilities	\$	8,458
Total liabilities assumed		8,458
		<hr/>
Net assets acquired	\$	24,640
		<hr/>

Following are the unaudited pro forma financial results prepared under the assumption that the acquisition of Stepan UK Limited had been completed at the beginning of the year 2000. These pro forma financial results include the assumption that the acquisition price of \$24.6 million was funded through the Company's committed lines of credit. Applied weighted average interest rates were 6.97 percent in 2000 and 4.63 percent in 2001.

PRO FORMA FINANCIAL RESULTS

	Twelve Months Ended December 31	
	2001	2000
(Dollars and shares in thousands, except per share amounts)		
Net Sales	\$ 743,369	\$ 741,097
Income Before Income Taxes	\$ 27,273	\$ 23,154
Net Income	\$ 16,994	\$ 14,239
Net Income Per Common Share:		
Basic	\$ 1.83	\$ 1.50
Diluted	\$ 1.75	\$ 1.45
Shares used to compute Earnings Per Common Share:		
Basic	8,837	8,948
Diluted	9,721	9,829

These pro forma statements represent the Company's determination of adjustments associated with the purchase of Stepan UK Limited and are based upon available information and certain assumptions that the Company believes to be reasonable. Consequently, the actual results may differ from the Pro Forma results.

On November 20, 2002, the Company's wholly owned subsidiary, Stepan UK Ltd. acquired the quaternary biocides and specialty surfactant business from Pentagon Chemicals Specialties based in the United Kingdom. The acquired product lines are sold primarily to the institutional cleaning product market. No manufacturing facilities were included in this acquisition. The allocation of the purchase price is not yet complete, but has initially been recorded to intangible assets, including goodwill, non-compete agreement, know-how and customer list. This acquisition is not material to the Company's results of operations, therefore, pro forma financial data is not presented.

3. Goodwill and Other Intangible Assets

On January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets," which is effective for fiscal years beginning after December 15, 2001. This standard establishes new accounting and reporting requirements for goodwill and intangible assets including no amortization of goodwill, separate identification of certain identifiable intangible

assets, and an annual assessment for impairment of all goodwill and intangible assets. The following is a reconciliation of the Company's reported net income, basic earnings per share and diluted earnings per share to the amounts that would have been reported had the new accounting rules been in effect at January 1, 2001:

	December 31	
	2002	2001
(In thousands, except per share data)		
Reported net income	\$ 20,129	\$ 16,072
Add back: Goodwill amortization	—	474
Adjusted net income	\$ 20,129	\$ 16,546
Basic earnings per share:		
Reported basic earnings per share	\$ 2.18	\$ 1.73
Add back: Goodwill amortization	—	0.05
Adjusted basic earnings per share	\$ 2.18	\$ 1.78
Diluted earnings per share:		
Reported diluted earnings per share	\$ 2.05	\$ 1.65
Add back: Goodwill amortization	—	0.05
Adjusted diluted earnings per share	\$ 2.05	\$ 1.70

The Company's net carrying values of goodwill were \$6,753,000 and \$6,100,000 as of December 31, 2002 and December 31, 2001, respectively. The entire amount of goodwill relates to the surfactants' reporting unit, and the increase in 2002 is primarily due to the UK quaternary biocides and specialty surfactant acquisition in November 2002.

The following table reflects the components of all other intangible assets, which all have finite lives, as of December 31, 2002 and 2001.

	Gross Carrying Amount		Accumulated Amortization	
	December 31		December 31	
	2002	2001	2002	2001
(In thousands)				
Other Intangible Assets:				
Patents	\$ 2,000	\$ 2,000	\$ 600	\$ 466
Trademarks, customer lists, know-how	18,061	17,095	6,595	5,386
Non-compete Agreements	1,483	1,000	1,000	950
Total	\$ 21,544	\$ 20,095	\$ 8,195	\$ 6,802

Aggregated amortization expense for the years ended December 31, 2002 and 2001, were \$1,393,000 and \$1,589,000, respectively. Amortization expense is recorded based on useful lives ranging from 5 to 15 years. Estimated amortization expense for identifiable intangibles assets, other than goodwill, for each of the succeeding fiscal years is as follows:

(In thousands)

For year ended 12/31/03	\$	1,587
For year ended 12/31/04	\$	1,587
For year ended 12/31/05	\$	1,587
For year ended 12/31/06	\$	1,426
For year ended 12/31/07	\$	1,182

4. Inventories

The composition of inventories is as follows:

(Dollars in thousands)	December 31	
	2002	2001
Finished products	\$ 40,875	\$ 33,932
Raw materials	27,110	25,398
Total inventories	\$ 67,985	\$ 59,330

If the first-in, first-out (FIFO) inventory valuation method had been used, inventories would have been approximately \$5,293,000 and \$7,500,000 higher than reported at December 31, 2002 and 2001, respectively.

5. Debt

Debt is composed of the following:

(Dollars in thousands)	Maturity Dates	December 31	
		2002	2001
Unsecured promissory notes			
6.59%	2003 – 2013	\$ 30,000	\$ 30,000
6.86%	2009 – 2015	30,000	—
7.77%	2003 – 2010	21,819	24,545
7.22%	2003 – 2007	15,000	18,000
7.69%	2003 – 2005	6,000	8,000
9.70%	2003	667	1,667
Unsecured bank debt	2007	—	35,200
Debt of foreign subsidiaries payable in foreign currency:			
Bank debt	2003 – 2009	13,108	—
Other	2003 – 2010	1,097	2,921
Total debt		117,691	120,333
Less current maturities		13,387	10,745
Long-term debt		\$ 104,304	\$ 109,588

Unsecured bank debt at December 31, 2002, consisted of no borrowings under a committed \$60,000,000 domestic revolving credit agreement with interest at varying rates

averaging 2.47 percent during the year. The agreement requires a commitment fee to be paid on the unused portion of the commitment, which averaged 0.14 percent during the year. Periodically, the Company had other borrowings under notes payable to banks under which there were no outstanding balances at December 31, 2002 and 2001.

Stepan Europe completed an \$11.7 million (denominated in euros) bank loan, secured by assets in Europe, during March 2002. This 7-year term loan bears interest at rates set quarterly, based on 90-day EURIBOR plus 1.825 percent.

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 \$36,513,000 and \$48,987,000 at December 31, 2002 and 2001, respectively. The Company is in compliance with all loan agreements.

Debt at December 31, 2002, matures as follows: \$13,387,000 in 2003; \$12,764,000 in 2004; \$12,819,000 in 2005; \$10,724,000 in 2006; \$10,632,000 in 2007 and \$57,365,000 after 2007.

The fair value of the Company's fixed-rate debt, including current maturities, was estimated to be \$113,400,000 compared to a carrying value of \$104,500,000 as of December 31, 2002.

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

<i>(Dollars in thousands)</i>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Interest expense	\$ 7,869	\$ 7,858	\$ 8,724
Interest income	(167)	(229)	(124)
Investment income	(149)	(265)	(742)
	<u>7,553</u>	<u>7,364</u>	<u>7,858</u>
Capitalized interest	(314)	(461)	(272)
Interest expense, net	<u>\$ 7,239</u>	<u>\$ 6,903</u>	<u>\$ 7,586</u>

6. Leased Properties

The Company leases certain property and equipment (primarily transportation equipment, buildings and computer equipment) under operating leases. Total rental expense was \$4,084,000, \$4,174,000, and \$4,242,000 in 2002, 2001 and 2000, respectively.

Minimum future rental payments under non-cancelable operating leases with terms in excess of one year as of December 31, 2002, are:

<i>(Dollars in thousands)</i>	<u>Year</u>	<u>Amount</u>
	2003	\$ 2,541
	2004	1,918
	2005	1,667
	2006	1,355
	2007	1,233
	Subsequent to 2007	5,726
	<u>Total minimum future rental payments</u>	<u>\$ 14,440</u>

7. Income Taxes

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

<i>(Dollars in thousands)</i>	2002	2001	2000
Taxes on Income			
Federal			
Current	\$ 7,687	\$ 9,036	\$ 9,901
Deferred	(1,574)	(2,596)	(3,417)
State			
Current	1,228	1,393	1,700
Deferred	(443)	(344)	(456)
Foreign			
Current	1,690	1,681	2,104
Deferred	1,551	556	(409)
Total	<u>\$ 10,139</u>	<u>\$ 9,726</u>	<u>\$ 9,423</u>
Income before Taxes			
Domestic	\$ 21,783	\$ 21,277	\$ 20,922
Foreign	8,485	4,521	3,553
Total	<u>\$ 30,268</u>	<u>\$ 25,798</u>	<u>\$ 24,475</u>

U.S. income taxes have not been provided on \$39,779,000 of undistributed earnings of the Company's foreign subsidiaries, or on the equity income of its foreign joint venture. 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 U.S. federal income tax rates are summarized as follows:

<i>(Dollars in thousands)</i>	2002		2001		2000	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
Federal income tax provision at statutory tax rate	\$10,593	35.0	\$9,029	35.0	\$8,566	35.0
State taxes on income less applicable federal tax benefit	510	1.7	682	2.6	809	3.3
Foreign income taxed at different rates	270	0.9	655	2.5	452	1.9
Effect of equity in foreign joint venture	(860)	(2.8)	(654)	(2.5)	(198)	(0.8)
Other items	(374)	(1.3)	14	0.1	(206)	(0.9)
Total income tax provision	<u>\$10,139</u>	<u>33.5</u>	<u>\$9,726</u>	<u>37.7</u>	<u>\$9,423</u>	<u>38.5</u>

The net deferred tax liability at December 31 comprises the following:

<i>(Dollars in thousands)</i>	2002	2001
Current deferred income taxes		
Assets	\$ 9,432	\$ 9,448
Liabilities	(1,582)	(638)
Total net current deferred tax assets	7,850	8,810
Non-current deferred income taxes		
Assets	24,784	19,576
Liabilities	(44,849)	(48,179)
Total net non-current deferred tax liabilities	(20,065)	(28,603)
Net deferred tax liability	\$ (12,215)	\$ (19,793)

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

<i>(Dollars in thousands)</i>	2002	2001
Tax over book depreciation	\$ (40,167)	\$ (40,884)
Safe Harbor leases	(1,646)	(2,032)
SFAS No. 87 pension accounting	4,954	(2,506)
State income tax accrual	1,094	1,788
Deferred revenue	1,083	1,415
Book reserves deductible in other periods	21,019	21,235
Other, net	1,448	1,191
Net deferred tax liability	\$ (12,215)	\$ (19,793)

8. 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 September 1, 2002, the redemption price was reduced to the minimum redemption price of \$25 per share 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.

No retirement of treasury stock took place during 2002 or 2001. At December 31, 2001, treasury stock consisted only of 782,232 shares of common stock. At December 31, 2002, treasury stock consisted only of 861,476 shares of common stock.

9. Stock Option Plans

The Company has two fixed stock option plans: the 1992 Plan and the 2000 Plan. The 1992 Plan extends participation to directors who are not employees of the Company. It 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 common stock at the time the SAR is exercised and the exercise price specified at the time the SAR is granted. No further grants may be made under the 1992 Plan after December 31, 2001. The 2000 Plan, which also extends participation to non-employee directors, authorizes the award of 1,000,000 shares of the Company's common stock for options, SAR and stock awards. A stock award is a grant of shares of stock to an employee, the earnings vesting or distribution of which is subject to certain conditions established by the Compensation and Development Committee of the Board of Directors. 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.

A summary of the status of the Company's stock option plans at December 31, 2002, 2001 and 2000, and changes during the years then ended is presented as follows:

	2002 Shares	Weighted- Average Exercise Price	2001 Shares	Weighted- Average Exercise Price	2000 Shares	Weighted- Average Exercise Price
Options outstanding, beginning of year	1,258,708	\$ 20.93	1,502,899	\$ 20.49	1,222,363	\$ 19.38
Options exercised	(137,501)	18.89	(192,650)	16.35	(113,950)	12.26
Options canceled/lapsed	(61,492)	27.49	(78,171)	24.48	(24,238)	25.43
Options granted	329,083	23.89	26,630	23.30	418,724	21.77
Options outstanding, end of year	1,388,798	21.55	1,258,708	20.93	1,502,899	20.49
Option price range at end of year	\$ 14.000-30.969		\$ 14.000-30.969		\$ 12.563-30.969	
Option price range for exercised shares	\$ 14.000-24.969		\$ 12.563-19.750		\$ 9.438-19.750	
Options available for grant at end of year	635,052		912,616		861,075	
Options exercisable	1,049,843		876,858		1,034,668	

A summary of stock options outstanding at December 31, 2002, is as follows:

Range of Exercise Price	Options Outstanding		Options Exercisable		
	Number Outstanding at 12/31/02	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 12/31/02	Weighted-Average Exercise Price
\$14.000	254,000	1.33	\$14.00	254,000	\$14.00
\$19.250-\$21.750	574,533	5.73	20.79	574,533	20.79
\$23.145-\$30.969	560,265	7.55	25.75	221,310	28.65
	1,388,798	5.66	\$21.55	1,049,843	\$20.80

10. Pension Plans

The Company has non-contributory defined benefit plans covering substantially all employees and two non-qualified defined benefit pension plans (a supplemental executive plan and an outside directors plan). The benefits under these plans are based primarily on years of service and compensation levels. The Company funds the qualified pension plans up to the maximum amount 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, 2002 and 2001 included \$10,468,000 and \$10,239,000, respectively, of the Company's common stock.

Net 2002, 2001 and 2000 periodic pension cost for the plans consisted of the following:

(Dollars in thousands)	2002	2001	2000
Service cost	\$ 2,580	\$ 2,273	\$ 2,119
Interest cost on projected benefit obligation	4,852	4,434	4,190
Expected return on plan assets	(6,445)	(6,233)	(5,812)
Amortization of unrecognized net transition assets	—	—	(557)
Amortization of unrecognized prior service cost	454	475	437
Amortization of unrecognized net loss (gain)	18	(418)	(477)
Net pension expense (income)	\$ 1,459	\$ 531	\$ (100)

Changes in benefit obligations for the years ending December 31, 2002 and 2001, were as follows:

(Dollars in thousands)	2002	2001
Benefit obligation at beginning of year	\$ 66,900	\$ 59,714
Service cost	2,580	2,273
Interest cost	4,852	4,434
Plan amendments	—	92
Actuarial loss	9,241	2,598
Benefits paid	(2,451)	—
Special termination benefits	48	(2,211)
Benefit obligation at end of year	\$ 81,170	\$ 66,900

Changes in the fair value of plan assets during years 2002 and 2001 were as follows:

<i>(Dollars in thousands)</i>	<u>2002</u>	<u>2001</u>
Fair value of plan assets at beginning of year	\$ 63,319	\$ 73,664
Actual return on plan assets	(7,212)	(8,319)
Employer contributions	504	185
Benefits paid	(2,451)	(2,211)
Fair value of plan assets at end of the year	\$ 54,160	\$ 63,319

The reconciliation of the funded status of the plans at December 31 was as follows:

<i>(Dollars in thousands)</i>	<u>2002</u>	<u>2001</u>
Plan assets (less than) in excess of projected benefit obligations	\$ (27,010)	\$ (3,581)
Unrecognized prior service cost	1,719	2,173
Unrecognized net loss (gain)	29,091	6,211
Net amount recognized	\$ 3,800	\$ 4,803

At December 31, 2002, all of the plans had accumulated benefit obligations in excess of plan assets and, therefore, were underfunded. At December 31, 2002, the projected benefit obligation, the accumulated benefit obligation and fair value of plans assets were \$81,170,000, \$70,809,000 and \$54,160,000, respectively.

The amounts recognized in the Consolidated Balance Sheets at December 31 consisted of the following:

<i>(Dollars in thousands)</i>	<u>2002</u>	<u>2001</u>
Prepaid benefit cost	—	\$ 6,762
Accrued benefit liability	\$ (16,649)	(5,037)
Intangible asset	1,898	1,499
Accumulated other comprehensive loss	18,551	1,579
Net amount recognized	\$ 3,800	\$ 4,803

The prepaid benefit cost and intangible asset amounts are included in the "Other Assets" caption of the Consolidated Balance Sheets. The accumulated other comprehensive loss amount is included in the "Stockholders' Equity" section of the Consolidated Balance Sheets.

The weighted-average assumptions as of December 31, 2002, 2001 and 2000, were as follows:

	2002	2001	2000
Discount rate	6.50%	7.25%	7.50%
Expected return on plan assets	8.50%	8.50%	8.50%
Rate of compensation increase	4.00%-6.00%	4.00%-6.00%	4.00%-6.00%

The prior service costs are being amortized over the average remaining service lives of employees expected to receive benefits.

11. Accrued Liabilities

Accrued liabilities consists of:

<i>(Dollars in thousands)</i>	<i>December 31</i>	
	2002	2001
Accrued payroll and benefits	\$ 19,308	\$ 15,817
Accrued customer discounts	8,344	8,669
Other accrued liabilities	12,462	10,518
Total accrued liabilities	\$ 40,114	\$ 35,004

12. Other Non-Current Liabilities

Other non-current liabilities consists of:

<i>(Dollars in thousands)</i>	<i>December 31</i>	
	2002	2001
Deferred revenue	\$ 2,109	\$ 2,568
Environmental and legal matters	14,091	13,964
Deferred compensation liability	16,583	16,653
Pension liability	16,528	2,591
Other non-current liabilities	2,141	2,278
Total other non-current liabilities	\$ 51,452	\$ 38,054

13. 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 (CERCLA) and the Superfund amendments of 1986 ("Superfund"). 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 \$7.5 million to \$35.1 million at December 31, 2002, compared to \$7.4 million to \$35.0 million at December 31, 2001. At December 31, 2002, the Company's best estimate of the reserve for such losses was \$17.6 million for legal and environmental matters compared to \$17.0 million at December 31, 2001. The Company made payments of \$3.0 million in 2002 and \$2.6 million in 2001 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.

Maywood, New Jersey, Site

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 Liability Act (CERCLA) 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 USEPA to the Company for property currently owned by the Company, the Company completed a Remedial Investigation Feasibility Study (RI/FS) in 1994. The Company submitted the Draft Final FS for Soil and Source Areas (Operable Unit 1) in September 2002. In addition, the Company has also submitted additional information regarding the remediation, most recently in October 2002. Discussions between USEPA and the Company are continuing. The Company is awaiting the issuance of a Record of Decision (ROD) from USEPA relating to the currently owned and formerly owned Company property and the proposed remediation. The final ROD will be issued sometime after the public comment period.

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 (DOE) took title to radiological contaminated materials and was to remediate, at its expense, all radiological waste on the Company's property in Maywood, New Jersey. The Maywood property (and portions of the surrounding area) were remediated by the DOE 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 a USACE Report to Congress dated January 1998 in which the USACE 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. Subsequent to the issuance of that report, the USACE advised the Company that it had requested legal advice from the Department of Justice as to the impact of the Agreement.

By letter dated July 28, 2000, the Department of Justice advised the Company that the USACE and USEPA had referred to the Justice Department claims against the Company for response costs incurred or to be incurred by the USACE, USEPA and the DOE in connection with the Maywood site and the Justice Department stated that the United States is entitled to recovery of its response costs from the Company under CERCLA. The letter referred to both radiological and non-radiological hazardous waste at the Maywood site and stated that the United States has incurred unreimbursed response costs to date of \$138 million. Costs associated with radiological waste at the Maywood site, which the Company believes represent all but a small portion of the amount referred to in the Justice Department letter, could be expected to aggregate substantially in excess of that amount. In the letter, the Justice Department invited the Company to discuss settlement of the matter in order to avoid the need for litigation. The Company believes that its liability, if any, for such costs has been resolved by the aforesaid Agreement. Despite the fact that the Company continues to believe that it has no liability to the United States for such costs, discussions with the Justice Department are currently ongoing to attempt to resolve this matter.

The Company believes it has adequate reserves for claims associated with the Maywood site. However, depending on the results of the ongoing discussions regarding the Maywood site, the final cost of the remediation could differ from the current estimates.

Ewan and D'Imperio Sites

As reported previously, the Company has been named as a potentially responsible party (PRP) in the case *USEPA v. Jerome Lightman* (92 CV 4710 D. N. J.), 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 was completed in March 2000. The Company is awaiting a decision from the court. If the Company is found liable at either site, a second trial as to the Company's allocated share of clean-up costs at these sites will likely be held in 2003. The Company believes it has adequate defenses to the issue of liability. In the event of an unfavorable outcome related to the issue of 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.

Lightman Drum Site

The Company received a Section 104(e) Request for Information from USEPA dated March 21, 2000, regarding the Lightman Drum Company Site located in Winslow Township, New Jersey. The Company responded to this request on May 18, 2000. In addition, the Company received a Notice of Potential Liability and Request to Perform RI/FS dated June 30, 2000, from USEPA. The Company has decided that it will participate in the performance of the RI/FS. However,

based on the current information known regarding this site, the Company is unable to predict what its liability, if any, will be for this site.

Liquid Dynamics Site

The Company received a General Notice of Potential Liability letter from the USEPA dated October 18, 2002, regarding the Liquid Dynamics Site located in Chicago, Illinois. The Company submitted a response to USEPA on November 5, 2002, stating that it is interested in negotiating a resolution of its potential responsibility at this site. Based on the fact that the Company believes it is de minimis at this site, the Company believes that a resolution of its liability at this site will not have a material impact on the financial condition of the Company.

Wilmington Site

As reported previously in the Company's Quarterly Report Form 10-Q for the quarter ended September 30, 1994 and various subsequent reports, the Company received a Request for Information from the Commonwealth of Massachusetts Department of Environmental Protection relating to the Company's formerly-owned site at 51 Eames Street, Wilmington, Massachusetts. The Company received a copy of another Request for Information regarding this site dated October 18, 2002. The Company's response to this request was filed December 20, 2002. The Company is currently investigating this matter and therefore, cannot predict what its liability, if any, will be for this site.

14. Segment Reporting

The 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 derive its revenues from the sale of phthalic anhydride, polyurethane polyols and polyurethane systems used in plastics, building materials and refrigeration systems. Specialty products sell 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, 2002, 2001 and 2000, was as follows:

(Dollars in thousands)	<u>Surfactants</u>	<u>Polymers</u>	<u>Specialty Products</u>	<u>Segment Totals</u>
2002				
Net sales	\$599,436	\$124,332	\$ 24,771	\$ 748,539
Operating income	45,064	17,381	6,983	69,428
Assets	326,164	48,383	18,871	393,418
Capital expenditures	20,416	6,611	1,577	28,604
Depreciation and amortization expenses	30,461	5,500	1,411	37,372
2001				
Net sales	\$558,927	\$127,722	\$ 24,868	\$ 711,517
Operating income	35,168	17,264	7,807	60,239
Assets	337,880	43,427	17,724	399,031
Capital expenditures	22,408	2,529	1,689	26,626
Depreciation and amortization expenses	30,472	5,656	1,290	37,418
2000				
Net sales	\$537,006	\$140,786	\$ 21,145	\$ 698,937
Operating income	41,718	21,001	3,130	65,849
Assets	310,820	53,314	18,121	382,255
Capital expenditures	23,333	3,427	986	27,746
Depreciation and amortization expenses	30,276	5,981	1,334	37,591

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

(Dollars in thousands)

	2002	2001	2000
Operating income – segment totals	\$ 69,428	\$ 60,239	\$ 65,849
Unallocated corporate expenses ^(a)	(35,498)	(29,407)	(34,491)
Interest expense	(7,239)	(6,903)	(7,586)
Income from equity in joint venture	3,577	1,869	703
Consolidated income before income taxes	\$ 30,268	\$ 25,798	\$ 24,475
Assets – segment totals	\$ 393,418	\$ 399,031	\$ 382,255
Unallocated corporate assets ^(b)	46,249	39,724	35,337
Consolidated assets	\$ 439,667	\$ 438,755	\$ 417,592
Capital expenditures – segment totals	\$ 28,604	\$ 26,626	\$ 27,746
Unallocated corporate expenditures	7,531	7,388	696
Consolidated capital expenditures	\$ 36,135	\$ 34,014	\$ 28,442
Depreciation and amortization expenses – segment totals	\$ 37,372	\$ 37,418	\$ 37,591
Unallocated corporate depreciation expenses	2,745	2,554	1,686
Consolidated depreciation and amortization expenses	\$ 40,117	\$ 39,972	\$ 39,277

(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 investment, long term investments, corporate fixed assets and LIFO inventory reserve which are not allocated to segments.

Company-wide geographic data for the years ended December 31, 2002, 2001 and 2000, is as follows (net sales attributed to countries based on selling location):

(Dollars in thousands)

	2002	2001	2000
Net sales			
United States	\$ 546,647	\$ 550,208	\$ 569,357
All foreign countries	201,892	161,309	129,580
Total	\$ 748,539	\$ 711,517	\$ 698,937
Long-lived assets			
United States	\$ 159,880	\$ 172,090	\$ 180,369
All foreign countries	51,170	39,343	17,778
Total	\$ 211,050	\$ 211,433	\$ 198,147

15. Earnings Per Share

Below is the computation of basic and diluted earnings per share for the years ended December 31, 2002, 2001 and 2000:

(In thousands, except per share amounts)

	2002	2001	2000
Computation of Basic Earnings per Share			
Net income	\$ 20,129	\$ 16,072	\$ 15,052
Deduct dividends on preferred stock	802	802	815
Income applicable to common stock	\$ 19,327	\$ 15,270	\$ 14,237
Weighted-average number of shares outstanding	8,861	8,837	8,948
Basic earnings per share	\$ 2.18	\$ 1.73	\$ 1.59
Computation of Diluted Earnings per Share			
Net income	\$ 20,129	\$ 16,072	\$ 15,052
Weighted-average number of shares outstanding	8,861	8,837	8,948
Add net shares from assumed exercise of options (under treasury stock method)	275	218	203
Add weighted-average shares from assumed conversion of convertible preferred stock	666	666	678
Shares applicable to diluted earnings	9,802	9,721	9,829
Diluted earnings per share	\$ 2.05	\$ 1.65	\$ 1.53

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

Quarter	2002				
	First	Second	Third	Fourth	Year
Net Sales	\$ 181,156	\$ 188,795	\$ 193,344	\$ 185,244	\$ 748,539
Gross Profit	28,969	35,233	31,065	27,259	122,526
Interest, net	(1,790)	(1,707)	(1,743)	(1,999)	(7,239)
Pre-tax Income	6,146	12,794	8,293	3,035	30,268
Net Income	3,810	8,217	5,675	2,427	20,129
Net Income per Diluted Share	0.39	0.84	0.58	0.25	2.05

Quarter	2001				
	First	Second	Third	Fourth	Year
Net Sales	\$ 176,857	\$ 182,767	\$ 173,829	\$ 178,064	\$ 711,517
Gross Profit	25,901	29,701	26,483	25,144	107,229
Interest, net	(1,905)	(1,757)	(1,713)	(1,528)	(6,903)
Pre-tax Income / (Loss)	6,136	8,818	11,205	(361)	25,798
Net Income	3,710	5,427	6,846	89	16,072
Net Income/(Loss) per Diluted Share	0.38	0.56	0.70	(0.01)	1.65

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

See Accounting and Auditing Matters section of the Proxy Statement dated March 28, 2003, which is incorporated by reference herein.

Item 10. Directors and Executive Officers of the Registrant

(a) Directors

See Company's Proxy Statement dated March 28, 2003, for Directors of the Registrant, which is incorporated by reference herein.

(b) Executive Officers

See Executive Officers of the Registrant in Part 1 above.

Item 11. Executive Compensation

See Company's Proxy Statement dated March 28, 2003, which is incorporated by reference herein.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholders Matters

See Company's Proxy Statement dated March 28, 2003, which is incorporated by reference herein.

Item 13. Certain Relationships and Related Transactions

None

PART IV

Item 14. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Based on their evaluation of our disclosure controls and procedures conducted within 90 days of the date of filing this report on Form 10-K, our Chief Executive Officer and our acting Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) promulgated under the Securities Exchange Act of 1934) are effective.

(b) Changes in Internal Controls

There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) Financial Statements

See Item 8 for the Consolidated Financial Statements and supplementary data included in this Form 10-K.

(b) Reports on Form 8-K

None

(c) Exhibits

See Exhibit Index filed herewith

Supplementary Schedule

See Supplemental Schedule to Consolidated Financial Statements filed herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15 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/ James E. Hurlbutt
Vice President and Corporate Controller

March 21, 2003

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	Chairman, Chief Executive Officer and Director	March 21, 2003
/s/ F. Quinn Stepan, Jr. _____ F. Quinn Stepan, Jr.	President, Chief Operating Officer and Director	March 21, 2003
/s/ James E. Hurlbutt _____ James E. Hurlbutt	Vice President and Corporate Controller	March 21, 2003
/s/ Stephen D. Newlin _____ Stephen D. Newlin	Director	March 21, 2003
/s/ Thomas F. Grojean _____ Thomas F. Grojean	Director	March 21, 2003
/s/ Paul H. Stepan _____ Paul H. Stepan	Director	March 21, 2003
/s/ Robert D. Cadieux _____ Robert D. Cadieux	Director	March 21, 2003
/s/ Robert G. Potter _____ Robert G. Potter	Director	March 21, 2003

James E. Hurlbutt, 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.

March 21, 2003

James E. Hurlbut

CERTIFICATIONS

I, F. Quinn Stepan, certify that:

1. I have reviewed this annual report on Form 10-K of Stepan Company;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 21, 2003

/s/ F. Quinn Stepan

F. Quinn Stepan
Chairman and Chief Executive Officer

CERTIFICATIONS

I, James E. Hurlbutt, certify that:

1. I have reviewed this annual report on Form 10-K of Stepan Company;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 21, 2003

/s/ James E. Hurlbutt

James E. Hurlbutt
Vice President & Corporate Controller

**SUPPLEMENTAL SCHEDULE TO CONSOLIDATED FINANCIAL STATEMENTS
FOR YEARS ENDED
DECEMBER 31, 2002, 2001 AND 2000
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:

(In Thousands)	2002	2001	2000
Balance, Beginning of Year	\$ 2,272	\$ 3,154	\$ 2,389
Provision/(Benefit) charged to income	583	(156)	1,281
Accounts written off, net of recoveries	(159)	(726)	(516)
Balance, End of Year	<u>\$ 2,696</u>	<u>\$ 2,272</u>	<u>\$ 3,154</u>

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.

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
(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 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)h(1)	Copy of Amended and Restated Note Agreement dated as of December 1, 2002, regarding 7.69% Amended and Restated Senior Notes, Series A, due June 30, 2005 and 7.77% Amended and Restated Senior Notes, Series B, due June 30, 2010 (amending 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 19)
(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)
- (4)p(1) Copy of Amended and Restated Note Agreement dated as of December 1, 2002, regarding 6.59% Amended and Restated Senior Notes, due October 1, 2013 (amending Term Loan Agreement dated October 1, 1998, with The Northwestern Mutual Life Insurance Company and Connecticut General Life Insurance Company). (Note 19)
- 4(q) Copy of Amended and Restated Note Agreement dated as of December 1, 2002, regarding 7.22% Amended and Restated Senior Notes, Series A, due April 1, 2008 and 7.22% Amended and Restated Senior Notes, Series B, due August 1, 2008 with Thrivent Financial For Lutherans, The Northwestern Mutual Life Insurance Company and MONY Life Insurance Company. (Note 19)
- (4)r Copy of Revolving Credit Agreement, dated May 3, 2002, with Bank One, NA (as agent bank). (Note 17)

- (4)s Copy of Amended and Restated Note Agreement dated as of December 1, 2002, regarding 9.70% Amended and Restated Senior Notes, Series B, due April 1, 2006 with The Northwestern Mutual Life Insurance Company. (Note 19)
- 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)
- (10)f Copy of the Company's 1992 Stock Option Plan. (Note 5)
- (10)g Copy of the Company's 2000 Stock Option Plan. (Note 15)
- (16) Letter regarding change in certifying accountant (Note 16)
- (18) Letter re change in accounting principle for the year ended December 31, 1992. (Note 8)
- (21) Subsidiaries of Registrant at December 31, 2002.
- (23) Independent Auditors' Consent.
- (24) Power of Attorney.
- (99.1) Certifications of Chief Executive Officer and Corporate Controller (Principal Accounting Officer)
- (99.2) Copy of Note Purchase Agreement, dated September 1, 2002, with The Northwestern Mutual Life Insurance Company, Thrivent Financial for Lutherans, Connecticut General Life Insurance Company and MONY Life Insurance Company (Note 18)

Notes To Exhibit Index

Note
No.

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.
15. Filed with the Company's Annual Report on Form 10-K for the year ended December 31, 1999, and incorporated herein by reference.
16. Filed with the Company's Current Report on Form 8-K/A filed on May 16, 2002, and incorporated herein by reference.

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17. Filed with the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002, and incorporated herein by reference.
 18. Filed with the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002, and incorporated herein by reference.
 19. Files with the Company's Form 10-K for the year ended December 31, 2002 and incorporated herein by reference.

=====

Stepan Company

Amended and Restated Note Agreement

Dated as of December 1, 2002

Re: 7.69% Amended and Restated Senior Notes, Series A,
due June 30, 2005
7.77% Amended and Restated Senior Notes, Series B,
due June 30, 2010

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Schedule 10.5	--	Existing Investments
Exhibit 1(a)	--	Form of 7.69% Amended and Restated Senior Notes, Series A, due June 30, 2005
Exhibit 1(b)	--	Form of 7.77% Amended and Restated Senior Notes, Series B, due June 30, 2010
Exhibit 4.4(a)	--	Form of Opinion of Counsel for the Company
Exhibit 4.4(b)	--	Form of Opinion of Special Counsel for the Noteholders

STEPAN COMPANY
EDENS AND WINNETKA AVENUE
NORTHFIELD, ILLINOIS 60093

7.69% Amended and Restated Senior Notes, Series A, due June 30, 2005
7.77% Amended and Restated Senior Notes, Series B, due June 30, 2010

Dated as of
December 1, 2002

To the Persons listed in
the attached Schedule A:

Ladies and Gentlemen:

Stepan Company, a Delaware corporation (the "Company"), agrees with each
Noteholder listed in the attached Schedule A as follows:

Section 1. Background.

Reference is made to the separate Loan Agreements, each dated as of June 15, 1995, between the Company and, respectively, each purchaser listed in Schedule I thereto (the "Existing Agreements"), under and pursuant to which the Company issued (a) its 7.69% Promissory Notes, Series A, due June 30, 2005 in the aggregate principal amount of \$10,000,000 (the "Series A Notes") and (b) its 7.77% Promissory Notes, Series B, due June 30, 2010 in the aggregate principal amount of \$30,000,000 (the "Series B Notes"; the Series A Notes and the Series B Notes being hereinafter collectively referred to as the "Notes"). Series A Notes in the aggregate principal amount of \$6,000,000 are presently outstanding and Series B Notes in the aggregate principal amount of \$21,818,184 are presently outstanding (the "Existing Notes"). The Company now desires to amend and restate the Existing Agreements and the Existing Notes in their entirety. In order to effectuate and reflect the foregoing in the most expeditious manner, to facilitate dealings with respect to the Existing Agreements and the Existing Notes and to promote clarity and convenience, the parties hereto have agreed to amend and restate each of the Existing Agreements and the Existing Notes.

Section 2. Amendment and Restatement of Existing Agreements and Existing Notes.

Section 2.1. Amendment and Restatement of Existing Agreements. Effective the Effective Date (as hereinafter defined), the Company, by its execution of this Agreement, hereby agrees and consents to the amendment and restatement in their entirety of all of the Existing Agreements by and into this Agreement.

Section 2.2. Amendment and Restatement of Existing Notes. The Company, by its execution of this Agreement, hereby agrees and consents to the amendment and restatement in their entirety of the Existing Notes to be in the forms of Exhibit 1(a) and Exhibit 1(b), as appropriate, hereto. The Existing Notes, as so amended and restated, shall be hereinafter referred to, individually, as a "Note" and, collectively, as the "Notes," and shall include each Note delivered pursuant to any provision of this Agreement and each Note delivered in substitution or exchange for any such Note pursuant to any such provision. The Company has duly authorized the execution and delivery to each Noteholder of the Notes, which Notes shall (i) be substituted in the place of the Existing Notes, (ii) be dated and bear interest from the date of the last full payment of interest on the Existing Notes, (iii) have the terms herein and therein provided, and (iv) be substantially in the forms set out in Exhibit 1(a) and Exhibit 1(b), as appropriate, with such changes therefrom, if any, as may be approved by the Noteholders and the Company.

Section 2.3. Agreement and Consent of the Noteholders. The Noteholders are, collectively, the holders of one hundred percent (100%) in aggregate principal amount of the Existing Notes. Subject to the satisfaction of the conditions precedent set forth in Section 4, the Noteholders, by their execution of this Agreement, hereby agree and consent to: (a) the amendment and restatement in their entirety of all of the Existing Agreements by and into this Agreement and (b) the amendment and restatement in their entirety of all of the Existing Notes by the exchange for an equal number of Notes in the forms of Exhibit 1(a) and Exhibit 1(b), as appropriate, hereto and in an equal outstanding principal amount therefor.

Section 2.4. Defined Terms, Etc. Certain capitalized terms used in this Agreement are defined in Schedule B; references to a "Schedule" or an "Exhibit" are, unless otherwise specified, to a Schedule or an Exhibit attached to this Agreement; and references to a "Section" are, unless otherwise specified, to a Section of this Agreement.

Section 2.5. Several Obligations. The obligations of each Noteholder hereunder are several and not joint obligations, and no Noteholder shall have any obligation or liability to any Person for the performance or nonperformance by any other Noteholder hereunder.

Section 2.6. Effect of Amendment and Restatement. Each of the Noteholders and the Company agree that (a) the amendment and restatement of the Existing Notes and the exchange of the Existing Notes for the Notes hereunder shall not constitute a novation or a prepayment of the Existing Notes and (b) no Make-Whole Amount or other premium is payable as a result of the amendment and restatement of the Existing Agreements or the Existing Notes as contemplated hereby.

Section 3. Effective Date.

Section 3.1. Effective Date. On December 12, 2002, or such other Business Day thereafter as may be mutually agreed upon by the Company and the Noteholders (the "Effective Date"), the Company shall execute and deliver to the Noteholders at the offices of Chapman and Cutler, 111 West Monroe Street, Chicago, Illinois 60603, at 10:00 A.M. Chicago time, or at such other place agreed to by the parties, one or more Notes (as set forth below each Noteholder's name on Schedule A), registered in the name specified on Schedule A, and in the denomination

or denominations specified on Schedule A, in replacement of the Existing Notes held by each Noteholder (or such Noteholder's nominee), in the respective principal amounts, as more particularly set forth below its name on Schedule A. Contemporaneously with the receipt by each Noteholder of such Notes, the Existing Notes held by such Noteholder shall be deemed to be cancelled and amended and restated by the Notes (regardless of whether such Noteholder shall have delivered to the Company for cancellation the Existing Notes held by it). Each Noteholder agrees to use commercially reasonable efforts to deliver the Existing Notes held by it to the Company in connection with the foregoing replacement and cancellation. All amounts owing under, and evidenced by, the Existing Notes as of the Effective Date shall continue to be outstanding under, and shall from and after the Effective Date be evidenced by, the Notes, and shall be governed by the terms of this Agreement. It is the intention of the parties hereto that the amendment and restatement of the Existing Notes by the Company and the execution, delivery and full effectiveness of this Agreement be simultaneous. Existing Notes delivered to the Company pursuant to the terms of this Agreement shall be marked "Cancelled/Amended and Restated by New Notes" by the Company.

If on the Effective Date the Company shall fail to tender the Notes to any Noteholder as provided in this Section 3.1, or any of the conditions specified in Section 4 shall not have been fulfilled to any Noteholder's reasonable satisfaction, such Noteholder shall, at such Noteholder's election, be relieved of all further obligations under this Agreement, without thereby waiving any rights such Noteholder may have under the Existing Agreements, the Existing Notes or otherwise by reason of such failure or such nonfulfillment.

Section 3.2. Survival of Payment Obligations. All payment obligations of the Company under the Existing Agreements (including, without limitation, reimbursement obligations in respect of costs, expenses and fees of or incurred by the holders of the Existing Notes), other than the obligation to pay the principal of and interest and Make-Whole Amount on the Existing Notes (which obligations, after the Effective Date, shall be evidenced by the Notes) shall survive the amendment and restatement of the Existing Agreements and the Existing Notes (and the cancellation thereof).

Section 4. Conditions Precedent.

The effectiveness of this Agreement is subject to the fulfillment to such Noteholder's satisfaction, prior to or on the Effective Date, of the following conditions:

Section 4.1. Representations and Warranties. The representations and warranties of the Company in this Agreement shall be correct when made and on the Effective Date.

Section 4.2. Performance; No Default. The Company shall have performed and complied with all agreements and conditions contained in this Agreement required to be performed or complied with by it prior to or on the Effective Date, and after giving effect to the transactions contemplated hereby, no Default or Event of Default shall have occurred and be continuing.

Section 4.3. Compliance Certificates.

(a) Officer's Certificate. The Company shall have delivered to such Noteholder an Officer's Certificate, dated the Effective Date, certifying that the conditions specified in Sections 4.1, 4.2 and 4.9 have been fulfilled.

(b) Secretary's Certificate. The Company shall have delivered to such Noteholder a certificate certifying as to the resolutions attached thereto and other corporate proceedings relating to the authorization, execution and delivery of the Notes and this Agreement.

Section 4.4. Opinions of Counsel. Such Noteholder shall have received opinions in form and substance satisfactory to such Noteholder, dated the Effective Date (a) from F. Samuel Eberts III, General Counsel of the Company, covering the matters set forth in Exhibit 4.4(a) and covering such other matters incident to the transactions contemplated hereby as such Noteholder or such Noteholder's counsel may reasonably request (and the Company hereby instructs its counsel to deliver such opinion to such Noteholder) and (b) from Chapman and Cutler, the Noteholders' special counsel in connection with such transactions, substantially in the form set forth in Exhibit 4.4(b) and covering such other matters incident to such transactions as such Noteholder may reasonably request.

Section 4.5. Exchange Permitted by Applicable Law, Etc. On the Effective Date the exchange of the Existing Notes for the Notes shall (i) be permitted by the laws and regulations of each jurisdiction to which each Noteholder is subject, without recourse to provisions (such as Section 1405(a)(8) of the New York Insurance Law) permitting limited investments by insurance companies without restriction as to the character of the particular investment, (ii) not violate any applicable law or regulation (including, without limitation, Regulation T, U or X of the Board of Governors of the Federal Reserve System) and (iii) not subject any Noteholder to any tax, penalty or liability under or pursuant to any applicable law or regulation, which law or regulation was not in effect on the date hereof. If requested by any Noteholder, such Noteholder shall have received an Officer's Certificate certifying as to such matters of fact as such Noteholder may reasonably specify to enable such Noteholder to determine whether such exchange is so permitted.

Section 4.6. Delivery and Exchange of Notes. On the Effective Date, the Company shall execute and deliver to the Noteholders, in exchange for the Existing Notes held by such Noteholders, Notes as specified on Schedule A.

Section 4.7. Payment of Special Counsel Fees. Without limiting the provisions of Section 15.1, the Company shall have paid on or before the Effective Date the fees, charges and disbursements of the Noteholders' special counsel referred to in Section 4.4 to the extent reflected in a statement of such counsel rendered to the Company at least one Business Day prior to the Effective Date.

Section 4.8. Private Placement Number. A Private Placement Number issued by Standard & Poor's CUSIP Service Bureau (in cooperation with the Securities Valuation Office of

the National Association of Insurance Commissioners) shall have been obtained for each series of the Notes.

Section 4.9. Changes in Corporate Structure. Except as specified in Schedule 4.9, at any time following the date of the most recent financial statements referred to in Schedule 5.5, the Company shall not have changed its jurisdiction of incorporation or been a party to any merger or consolidation and shall not have succeeded to all or any substantial part of the liabilities of any other entity.

Section 4.10. Proceedings and Documents. All corporate and other proceedings in connection with the transactions contemplated by this Agreement and all documents and instruments incident to such transactions shall be satisfactory to such Noteholder and such Noteholder's special counsel, and such Noteholder and such Noteholder's special counsel shall have received all such counterpart originals or certified or other copies of such documents as such Noteholder or such Noteholder's special counsel may reasonably request.

Section 5. Representations and Warranties of the Company.

The Company represents and warrants to each Noteholder, as of the Effective Date, that:

Section 5.1. Organization; Power and Authority. The Company is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation, and is duly qualified as a foreign corporation and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. The Company has the corporate power and authority to own or hold under lease the properties it purports to own or hold under lease, to transact the business it transacts and proposes to transact, to execute and deliver this Agreement and the Notes and to perform the provisions hereof and thereof.

Section 5.2. Authorization, Etc. This Agreement and the Notes have been duly authorized by all necessary corporate action on the part of the Company, and this Agreement constitutes, and upon execution and delivery thereof each Note will constitute, a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except as such enforceability may be limited by (a) applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and (b) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Section 5.3. Disclosure. The Company has delivered to each Noteholder copies of (a) the annual report as filed with the Securities and Exchange Commission on Form 10-K for the fiscal year ended December 31, 2001 (the "10-K") which generally sets forth the business conducted by the Company and its Subsidiaries and the principal properties of the Company and its Subsidiaries, and (b) the quarterly reports as filed with the Securities and Exchange Commission on Form 10-Q for the quarterly fiscal periods ended March 31, 2002 and June 30, 2002 (the "10-Qs"). This Agreement, the 10-K, the 10-Qs and the other financial statements

listed in Schedule 5.5, taken as a whole, do not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading in light of the circumstances under which they were made. Since December 31, 2001, there has been no change in the financial condition, operations, business, properties or prospects of the Company or any Subsidiary except changes that individually or in the aggregate could not reasonably be expected to have a Material Adverse Effect. There is no fact known to the Company that could reasonably be expected to have a Material Adverse Effect that has not been set forth herein or in the other documents, certificates and other writings delivered to the Noteholders by or on behalf of the Company specifically for use in connection with the transactions contemplated hereby.

Section 5.4. Organization and Ownership of Shares of Subsidiaries; Affiliates. (a) Schedule 5.4 contains (except as noted therein) complete and correct lists (i) of the Company's Restricted Subsidiaries and Unrestricted Subsidiaries, showing, as to each Subsidiary, the correct name thereof, the jurisdiction of its organization, and the percentage of shares of each class of its capital stock or similar equity interests outstanding owned by the Company and each other Subsidiary, (ii) of the Company's Affiliates, other than Subsidiaries, and (iii) of the Company's directors and Executive Officers (as defined in Rule 405 of the Securities Act).

(b) All of the outstanding shares of capital stock or similar equity interests of each Subsidiary shown in Schedule 5.4 as being owned by the Company and its Subsidiaries have been validly issued, are fully paid and nonassessable and are owned by the Company or another Subsidiary free and clear of any Lien (except as otherwise disclosed in Schedule 5.4).

(c) Each Subsidiary identified in Schedule 5.4 is a corporation or other legal entity duly organized or formed, validly existing and in good standing under the laws of its jurisdiction of organization or formation, and is duly qualified as a foreign corporation or other legal entity and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Each such Subsidiary has the corporate or other power and authority to own or hold under lease the properties it purports to own or hold under lease and to transact the business it transacts and proposes to transact.

(d) No Subsidiary is a party to, or otherwise subject to, any legal restriction or any agreement (other than this Agreement, the agreements listed on Schedule 5.4 and customary limitations imposed by corporate law statutes) restricting the ability of such Subsidiary to pay dividends out of profits or make any other similar distributions of profits to the Company or any of its Subsidiaries that owns outstanding shares of capital stock or similar equity interests of such Subsidiary.

Section 5.5. Financial Statements. The Company has delivered to each Noteholder copies of the financial statements of the Company and its Subsidiaries listed on Schedule 5.5. All of said financial statements (including in each case the related schedules and notes) fairly present in all material respects the consolidated financial position of the Company and its Subsidiaries as of the respective dates specified in such financial statements and the consolidated

results of their operations and cash flows for the respective periods so specified and have been prepared in accordance with GAAP consistently applied throughout the periods involved except (a) as set forth in the notes thereto (subject, in the case of any interim financial statements, to normal year-end adjustments) and (b) as specifically disclosed in writing by the Company (i) to the Noteholders in their capacity as holders of existing notes of the Company in that certain Waiver Agreement dated as of August 12, 2002 (including the Memorandum from the Company entitled "Accounting For Deferred Management Compensation and Deferred Directors' Fees" attached to said Waiver Agreement as Exhibit A) and (ii) in its public filings with the Securities and Exchange Commission.

Section 5.6. Compliance with Laws, Other Instruments, Etc. The execution, delivery and performance by the Company of this Agreement and the Notes will not (i) contravene, result in any breach of, or constitute a default under, or result in the creation of any Lien in respect of any property of the Company or any Subsidiary under, any indenture, mortgage, deed of trust, loan, purchase or credit agreement, lease, corporate charter or by-laws, or any other agreement or instrument to which the Company or any Subsidiary is bound or by which the Company or any Subsidiary or any of their respective properties may be bound or affected, (ii) conflict with or result in a breach of any of the terms, conditions or provisions of any order, judgment, decree, or ruling of any court, arbitrator or Governmental Authority applicable to the Company or any Subsidiary or (iii) violate any provision of any statute or other rule or regulation of any Governmental Authority applicable to the Company or any Subsidiary.

Section 5.7. Governmental Authorizations, Etc. No consent, approval or authorization of, or registration, filing or declaration with, any Governmental Authority is required in connection with the execution, delivery or performance by the Company of this Agreement or the Notes.

Section 5.8. Litigation; Observance of Agreements, Statutes and Orders. (a) Except as disclosed in Schedule 5.8, and excluding environmental matters which are covered in Section 5.18, there are no actions, suits or proceedings pending or, to the knowledge of the Company, threatened against or affecting the Company or any Subsidiary or any property of the Company or any Subsidiary in any court or before any arbitrator of any kind or before or by any Governmental Authority that, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

(b) Neither the Company nor any Subsidiary is in default under any term of any agreement or instrument to which it is a party or by which it is bound, or any order, judgment, decree or ruling of any court, arbitrator or Governmental Authority or is in violation of any applicable law, ordinance, rule or regulation (including without limitation Environmental Laws and ERISA) of any Governmental Authority, which default or violation, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

Section 5.9. Taxes. The Company and its Subsidiaries have filed all tax returns that are required to have been filed in any jurisdiction, and have paid all taxes shown to be due and payable on such returns and all other taxes and assessments levied upon them or their properties, assets, income or franchises, to the extent such taxes and assessments have become due and

payable and before they have become delinquent, except for any taxes and assessments (a) the amount of which is not individually or in the aggregate Material or (b) the amount, applicability or validity of which is currently being contested in good faith by appropriate proceedings and with respect to which the Company or a Subsidiary, as the case may be, has established adequate reserves in accordance with GAAP. The Company knows of no basis for any other tax or assessment that could reasonably be expected to have a Material Adverse Effect. The charges, accruals and reserves on the books of the Company and its Subsidiaries in respect of Federal, state or other taxes for all fiscal periods are adequate. The Federal income tax liabilities of the Company and its Subsidiaries have been audited by the Internal Revenue Service and paid for all fiscal years up to and including the fiscal year ended December 31, 1997.

Section 5.10. Title to Property; Leases. The Company and its Subsidiaries have good and sufficient title to their respective properties that individually or in the aggregate are Material, including all such properties reflected in the most recent audited balance sheet referred to in Section 5.5 or purported to have been acquired by the Company or any Subsidiary after said date (except as sold or otherwise disposed of in the ordinary course of business), in each case free and clear of Liens prohibited by this Agreement. No financing statement under the Uniform Commercial Code which names the Company or any of its Restricted Subsidiaries as debtor has been filed in any jurisdiction, and neither the Company nor any of such Restricted Subsidiaries has signed any financing statement or any security agreement authorizing any secured party thereunder to file any such financing statement, except for precautionary filings described in Schedule 5.10 made in connection with leased equipment and as may otherwise be permitted by Section 10.3.

All leases that individually or in the aggregate are Material are valid and subsisting and are in full force and effect in all material respects. The Company and each Subsidiary enjoys peaceful and undisturbed possession of the premises occupied under all of the leases that are Material under which it is operating, none of which contains any unusual or burdensome provisions that could reasonably be expected to have a Material Adverse Effect. None of the assets or property the value of which is reflected in the Company's consolidated balance sheet as of December 31, 2001, is held by the Company as lessee under any lease or as conditional vendee under any conditional sale contract or other title retention agreement, other than Capitalized Leases included on such consolidated balance sheet and leasehold improvements on leased property in an aggregate amount (net after subtracting the reserve for amortization with respect to such leasehold improvements) not exceeding \$3,000,000.

Section 5.11. Licenses, Permits, Etc. Except as disclosed in Schedule 5.11,

(a) the Company and its Subsidiaries own or possess all licenses, permits, franchises, authorizations, patents, copyrights, service marks, trademarks and trade names, or rights thereto, except where the failure to own or possess could not reasonably be expected to have a Material Adverse Effect;

(b) to the best knowledge of the Company, no product of the Company infringes any license, permit, franchise, authorization, patent, copyright, service mark, trademark, trade name

or other right owned by any other Person, except for any such infringement which could not reasonably be expected to have a Material Adverse Effect; and

(c) to the best knowledge of the Company, there is no violation by any Person of any right of the Company or any of its Subsidiaries with respect to any patent, copyright, service mark, trademark, trade name or other right owned or used by the Company or any of its Subsidiaries, except violations which could not reasonably be expected to have a Material Adverse Effect.

Section 5.12. Compliance with ERISA. (a) The Company and each ERISA Affiliate have operated and administered each Plan in compliance with all applicable laws except for such instances of noncompliance as have not resulted in and could not reasonably be expected to result in a Material Adverse Effect. Neither the Company nor any ERISA Affiliate has incurred any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans (as defined in Section 3 of ERISA), and no event, transaction or condition has occurred or exists that could reasonably be expected to result in the incurrence of any such liability by the Company or any ERISA Affiliate, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate, in either case pursuant to Title I or IV of ERISA or to such penalty or excise tax provisions or to Section 401(a)(29) or 412 of the Code, other than such liabilities or Liens as would not be individually or in the aggregate reasonably likely to have a Material Adverse Effect.

(b) The present value of the aggregate benefit liabilities under each of the Plans (other than Multiemployer Plans), determined as of the end of such Plan's most recently ended plan year on the basis of the actuarial assumptions specified for funding purposes in such Plan's most recent actuarial valuation report, did not exceed the aggregate current value of the assets of such Plan allocable to such benefit liabilities by more than \$5,000,000 in the aggregate for all Plans. The term "benefit liabilities" has the meaning specified in Section 4001 of ERISA and the terms "current value" and "present value" have the meanings specified in Section 3 of ERISA.

(c) The Company and its ERISA Affiliates have not incurred withdrawal liabilities (and are not subject to contingent withdrawal liabilities) under Section 4201 or 4204 of ERISA in respect of Multiemployer Plans that individually or in the aggregate are Material.

(d) The expected post-retirement benefit obligation (determined as of the last day of the Company's most recently ended fiscal year in accordance with Financial Accounting Standards Board Statement No. 106, without regard to liabilities attributable to continuation coverage mandated by Section 4980B of the Code) of the Company and its Subsidiaries is not Material.

(e) The execution and delivery of this Agreement and the issuance and delivery of the Notes hereunder will not involve any transaction that is subject to the prohibitions of Section 406 of ERISA or in connection with which a tax could be imposed pursuant to Section 4975(c)(1)(A)-(D) of the Code. The representation by the Company in the first sentence of this Section 5.12(e) is made in reliance upon and subject to the accuracy of each Noteholder's representation in Section 6.2 as to the sources of the funds used to pay the purchase price of the Existing Notes to be exchanged by such Noteholder for the Notes.

Section 5.13. Private Offering by the Company. Neither the Company nor anyone acting on its behalf has offered the Notes or any similar securities for sale to, or solicited any offer to buy any of the same from, or otherwise approached or negotiated in respect thereof with, any Person other than the Noteholders. Neither the Company nor anyone acting on its behalf has taken, or will take, any action that would subject the issuance of the Notes to the registration requirements of Section 5 of the Securities Act.

Section 5.14. [Reserved].

Section 5.15. Existing Indebtedness; Future Liens. (a) Schedule 5.15 sets forth a complete and correct list of all outstanding Indebtedness of the Company and its Subsidiaries as of June 30, 2002, since which date there has been no Material change in the amounts, interest rates, sinking funds, installment payments or maturities of such Indebtedness of the Company or its Subsidiaries. Neither the Company nor any Subsidiary is in default and no waiver of default is currently in effect, in the payment of any principal or interest on any Indebtedness for borrowed money or Capitalized Leases of the Company or such Subsidiary and no event or condition exists with respect to any Indebtedness of the Company or any Subsidiary that would permit (or that with notice or the lapse of time, or both, would permit) one or more Persons to cause such Indebtedness to become due and payable before its stated maturity or before its regularly scheduled dates of payment.

(b) Except as disclosed in Schedule 5.15, neither the Company nor any Subsidiary has agreed or consented to cause or permit in the future (upon the happening of a contingency or otherwise) any of its property, whether now owned or hereafter acquired, to be subject to a Lien not permitted by Section 10.3.

Section 5.16. Foreign Assets Control Regulations, Etc. The exchange of the Existing Notes for the Notes by the Company hereunder and compliance by the Company with the provisions hereof and of the Notes will not violate the Trading with the Enemy Act, as amended, any of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended), or the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (enacted October 26, 2001), or any enabling legislation or executive order relating to any of the foregoing. Without limiting the foregoing, neither the Company nor any of its Subsidiaries (a) is a blocked person described in Section 1 of Executive Order 13224 of September 23, 2001 Blocking Property and Prohibiting Transactions With Persons Who Commit and Threaten to Commit, or Support Terrorism (66 Fed. Reg. 49049 (2001)) or (b) knowingly engages in any dealings or transactions, or is otherwise associated, with any such blocked person.

Section 5.17. Status under Certain Statutes. Neither the Company nor any Subsidiary is an "investment company" registered or required to be registered under the Investment Company Act of 1940, as amended, or is subject to regulation under the Public Utility Holding Company Act of 1935, as amended, the ICC Termination Act of 1995, as amended, or the Federal Power Act, as amended.

Section 5.18. Environmental Matters. Except as set forth in Schedule 5.18 and in the 10-K and the 10-Qs,

(a) the Company complies with all applicable Environmental Laws, except where the failure to comply could not reasonably be expected to have a Material Adverse Effect; and

(b) neither the Company nor any Subsidiary has knowledge of any claim or has received any written notice of any claim, and no proceeding has been instituted raising any claim against the Company or any of its Subsidiaries or any of their respective real properties now or formerly owned, leased or operated by any of them or other assets, alleging any damage to the environment or violation of any Environmental Laws, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect.

Section 6. Representations of the Noteholder.

Section 6.1. Acquisition for Investment. Each Noteholder represents that it acquired the Existing Notes amended and restated hereunder for its own account or for one or more separate accounts maintained by it or for the account of one or more pension or trust funds and not with a view to the distribution thereof, provided that the disposition of such Noteholder's or such pension or trust funds' property shall at all times be within such Noteholder's or such pension or trust funds' control. Each Noteholder understands that the Notes have not been registered under the Securities Act and may be resold only if registered pursuant to the provisions of the Securities Act or if an exemption from registration is available, except under circumstances where neither such registration nor such an exemption is required by law, and that the Company is not required to register the Notes.

Section 6.2. Source of Funds. Each Noteholder represents that at least one of the following statements is an accurate representation as to each source of funds (a "Source") used by it to pay the purchase price of the Existing Notes amended and restated hereunder:

(a) the Source is an "insurance company general account" within the meaning of Department of Labor Prohibited Transaction Exemption ("PTE") 95-60 (issued July 12, 1995) and there is no employee benefit plan, treating as a single plan, all plans maintained by the same employer or employee organization, with respect to which the amount of the general account reserves and liabilities for all contracts held by or on behalf of such plan, exceed ten percent (10%) of the total reserves and liabilities of such general account (exclusive of separate account liabilities) plus surplus, as set forth in the NAIC Annual Statement for such Noteholder most recently filed with such Noteholder's state of domicile; or

(b) the Source is either (i) an insurance company pooled separate account, within the meaning of PTE 90-1 (issued January 29, 1990), or (ii) a bank collective investment fund, within the meaning of the PTE 91-38 (issued July 12, 1991) and, except as such Noteholder has disclosed to the Company in writing pursuant to this paragraph

(b) no employee benefit plan or group of plans maintained by the same employer or employee organization beneficially owns more than 10% of all assets allocated to such pooled separate account or collective investment fund; or

(c) the Source constitutes assets of an "investment fund" (within the meaning of Part V of the QPAM Exemption) managed by a "qualified professional asset manager" or "QPAM" (within the meaning of Part V of the QPAM Exemption), no employee benefit plan's assets that are included in such investment fund, when combined with the assets of all other employee benefit plans established or maintained by the same employer or by an affiliate (within the meaning of Section V(c)(1) of the QPAM Exemption) of such employer or by the same employee organization and managed by such QPAM, exceed 20% of the total client assets managed by such QPAM, the conditions of Part I(c) and (g) of the QPAM Exemption are satisfied, neither the QPAM nor a person controlling or controlled by the QPAM (applying the definition of "control" in Section V(e) of the QPAM Exemption) owns a 5% or more interest in the Company and (i) the identity of such QPAM and (ii) the names of all employee benefit plans whose assets are included in such investment fund have been disclosed to the Company in writing pursuant to this paragraph (c); or

(d) the Source is a governmental plan; or

(e) the Source is one or more employee benefit plans, or a separate account or trust fund comprised of one or more employee benefit plans, each of which has been identified to the Company in writing pursuant to this paragraph (e); or

(f) the Source does not include assets of any employee benefit plan, other than a plan exempt from the coverage of ERISA.

If any Noteholder or any subsequent transferee of the Notes indicates in writing that such Noteholder or such transferee is relying on any representation contained in paragraph (b), (c) or (e) above, the Company shall deliver on the Effective Date and on the date of any applicable transfer a certificate, which shall either state that (i) it is neither a party in interest nor a "disqualified person" (as defined in Section 4975(e)(2) of the Code), with respect to any plan identified pursuant to paragraphs (b) or (e) above, or (ii) with respect to any plan, identified pursuant to paragraph (c) above, neither it nor any "affiliate" (as defined in Section V(c) of the QPAM Exemption) has at such time, and during the immediately preceding one year, exercised the authority to appoint or terminate said QPAM as manager of any plan identified in writing pursuant to paragraph (c) above or to negotiate the terms of said QPAM's management agreement on behalf of any such identified plan. As used in this Section 6.2, the terms "employee benefit plan", "governmental plan", "party in interest" and "separate account" shall have the respective meanings assigned to such terms in Section 3 of ERISA.

Section 7. Information as to Company.

Section 7.1. Financial and Business Information. The Company shall deliver to each holder of Notes that is an Institutional Investor:

(a) Quarterly Statements -- within 60 days after the end of each quarterly fiscal period in each fiscal year of the Company (other than the last quarterly fiscal period of each such fiscal year), duplicate copies of:

(i) a consolidated balance sheet of the Company and its Subsidiaries as at the end of such quarter, and

(ii) consolidated statements of income, changes in shareholders' equity and cash flows of the Company and its Subsidiaries for such quarter and (in the case of the second and third quarters) for the portion of the fiscal year ending with such quarter,

setting forth in each case in comparative form the figures for the corresponding periods in the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP applicable to quarterly financial statements generally, and certified by a Senior Financial Officer as fairly presenting, in all material respects, the financial position of the companies being reported on and their results of operations and cash flows, subject to changes resulting from year-end adjustments, provided that delivery within the time period specified above of copies of the Company's Quarterly Report on Form 10-Q prepared in compliance with the requirements therefor and filed with the Securities and Exchange Commission shall be deemed to satisfy the requirements of this Section 7.1(a);

(b) Annual Statements -- within 90 days after the end of each fiscal year of the Company, duplicate copies of:

(i) a consolidated balance sheet of the Company and its Subsidiaries, as at the end of such year, and

(ii) consolidated statements of income, changes in shareholders' equity and cash flows of the Company and its Subsidiaries, for such year,

setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP, and accompanied by

(A) an opinion thereon of independent certified public accountants of recognized national standing, which opinion shall state that such financial statements present fairly, in all material respects, the financial position of the companies being reported upon and their results of operations and cash flows and have been prepared in conformity with GAAP, and that the examination of such accountants in connection with such financial statements has been made in accordance with generally accepted auditing standards, and that such audit provides a reasonable basis for such opinion in the circumstances, and

(B) a certificate of such accountants stating that they have reviewed this Agreement and containing substantially the following: "We

have audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheet of Stepan Company as of December 31, 20xx, and the related statements of income, stockholders' equity, and cash flows for the year then ended, and have issued our report thereon. In connection with our audit, nothing came to our attention that caused us to believe that the Company failed to comply with the terms, covenants, provisions or conditions of Section 10.1, 10.2(a)(iii) and 10.6 of the Amended and Restated Note Agreement dated as of December 1, 2002, with the holders of the Notes stated therein (the "Noteholders") insofar as they relate to financial and accounting matters (except as hereinafter specified). However, our audit was not directed primarily toward obtaining knowledge of noncompliance with such Sections. This report is intended solely for the information and use of the boards of directors and management of Stepan Company and the Noteholders, and is not intended to be and should not be used by anyone other than these specified parties."

provided that the delivery within the time period specified above of the Company's Annual Report on Form 10-K for such fiscal year (together with the Company's annual report to shareholders, if any, prepared pursuant to Rule 14a-3 under the Exchange Act) prepared in accordance with the requirements therefor and filed with the Securities and Exchange Commission, together with the accountant's certificate described in clause (B) above, shall be deemed to satisfy the requirements of this Section 7.1(b);

(c) Restricted Subsidiaries and Unrestricted Subsidiaries -- if, and so long as, the Company has (i) one or more Restricted Subsidiaries, the financial statements referred to in Section 7.1(a) and Section 7.1(b) shall be on a consolidated basis prepared in accordance with GAAP, or (ii) one or more Unrestricted Subsidiaries, the Company shall deliver to the holders of the Notes, promptly after receipt thereof, copies of balance sheets and income and surplus and cash flows statements of each such Subsidiary, prepared in accordance with GAAP, which are not included in the financial statements furnished pursuant to Section 7.1(b), in the form delivered to the Company for the fiscal year of each such Subsidiary;

(d) SEC and Other Reports -- promptly upon their becoming available, one copy of (i) each financial statement, report, notice or proxy statement sent by the Company or any Subsidiary to public securities holders generally, and (ii) each regular or periodic report, each registration statement (without exhibits except as expressly requested by such holder), and each prospectus and all amendments thereto filed by the Company or any Subsidiary with the Securities and Exchange Commission and of all press releases and other statements made available generally by the Company or any Subsidiary to the public concerning developments that are Material;

(e) Notice of Default or Event of Default -- promptly, and in any event within five Business Days (i) after a Responsible Officer becoming aware of the existence of any Default or Event of Default or that any Person has given any notice or taken any action

with respect to a claimed default hereunder or that any Person has given any notice or taken any action with respect to a claimed default of the type referred to in Section 11(f), a written notice specifying the nature and period of existence thereof and what action the Company is taking or proposes to take with respect thereto and (ii) of their becoming available, one copy of any letter, certificate or other writing supplied by the Company's independent public accountants to any other Person pertaining to whether such accountants have cause to believe that there has been any default by the Company under any other agreement or evidence of Indebtedness;

(f) ERISA Matters -- promptly, and in any event within five Business Days after a Responsible Officer becoming aware of any of the following, a written notice setting forth the nature thereof and the action, if any, that the Company or an ERISA Affiliate proposes to take with respect thereto:

(i) with respect to any Plan, any reportable event, as defined in section 4043(b) of ERISA and the regulations thereunder, for which notice thereof has not been waived pursuant to such regulations as in effect on the date hereof; or

(ii) the taking by the PBGC of steps to institute, or the threatening by the PBGC of the institution of, proceedings under section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan, or the receipt by the Company or any ERISA Affiliate of a notice from a Multiemployer Plan that such action has been taken by the PBGC with respect to such Multiemployer Plan; or

(iii) any event, transaction or condition that could result in the incurrence of any liability by the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or such penalty or excise tax provisions, if such liability or Lien, taken together with any other such liabilities or Liens then existing, could reasonably be expected to have a Material Adverse Effect;

(g) Notices from Governmental Authority -- promptly, and in any event within 30 days of receipt thereof, copies of any notice to the Company or any Subsidiary of which a Responsible Officer is aware from any Federal or state Governmental Authority relating to any order, ruling, statute or other law or regulation that could reasonably be expected to have a Material Adverse Effect, provided that, with respect to notices regarding environmental matters at the Company's Maywood, New Jersey property, the Company shall only be required to send copies of such notices containing information regarding (i) adverse developments which are Material or (ii) matters not previously disclosed that could reasonably be expected to have a Material Adverse Effect; and

(h) Notice of Change of Control -- without limiting the obligations of the Company set forth in Section 8.3, promptly, and in any event within two Business Days of the earlier of becoming aware of the execution of a Definitive Agreement by the Company or the consummation of a Change of Control (as defined in Section 8.3), give notice thereof to all holders of the Notes; and

(i) Requested Information -- with reasonable promptness, such other data and information relating to the business, operations, affairs, financial condition, assets or properties of the Company or any of its Subsidiaries or relating to the ability of the Company to perform its obligations hereunder and under the Notes as from time to time may be reasonably requested by any such holder of Notes.

Section 7.2. Officer's Certificate. Each set of financial statements delivered to a holder of Notes pursuant to Section 7.1(a) or Section 7.1(b) hereof shall be accompanied by a certificate of a Senior Financial Officer setting forth:

(a) Covenant Compliance -- the information (including reasonably detailed calculations) required in order to establish whether the Company was in compliance with the requirements of Section 10.1 through Section 10.10 hereof, inclusive, during the quarterly or annual period covered by the statements then being furnished (including with respect to each such Section, where applicable, the calculations of the maximum or minimum amount, ratio or percentage, as the case may be, permissible under the terms of such Sections, and the calculation of the amount, ratio or percentage then in existence); and

(b) Event of Default -- a statement that such officer has reviewed the relevant terms hereof and has made, or caused to be made, under his or her supervision, a review of the transactions and conditions of the Company and its Subsidiaries from the beginning of the quarterly or annual period covered by the statements then being furnished to the date of the certificate and that such review shall not have disclosed the existence during such period of any condition or event that constitutes a Default or an Event of Default or, if any such condition or event existed or exists (including, without limitation, any such event or condition resulting from the failure of the Company or any Subsidiary to comply with any Environmental Law), specifying the nature and period of existence thereof and what action the Company shall have taken or proposes to take with respect thereto.

Section 7.3. Inspection. The Company shall permit the representatives of each holder of Notes that is an Institutional Investor:

(a) No Default -- if no Default or Event of Default then exists, at the expense of such holder and upon reasonable prior notice to the Company, to visit the principal executive office of the Company, to discuss the affairs, finances and accounts of the Company and its Subsidiaries with the Company's officers, and (with the consent of the Company, which consent will not be unreasonably withheld) its independent public accountants with a representative of the Company being present, at the option of the

Company, and (with the consent of the Company, which consent will not be unreasonably withheld) to visit the other offices and properties of the Company and each Subsidiary, all at such reasonable times and as often as may be reasonably requested in writing; and

(b) Default -- if a Default or Event of Default then exists, at the expense of the Company, to visit and inspect any of the offices or properties of the Company or any Subsidiary, to examine all their respective books of account, records, reports and other papers, to make copies and extracts therefrom, and to discuss their respective affairs, finances and accounts with their respective officers and independent public accountants (and by this provision the Company authorizes said accountants to discuss the affairs, finances and accounts of the Company and its Subsidiaries), all at such times and as often as may be requested.

Section 8. Prepayment of the Notes.

Section 8.1. Required Prepayments. In addition to paying the entire outstanding principal amount and the interest due on the Notes on the maturity date thereof:

(a) on June 30 in each year, commencing June 30, 2003 and ending June 30, 2004 (herein called "Series A Fixed Payment Dates"), both inclusive, the Company will prepay \$2,000,000 principal amount (or such lesser principal amount as shall then be outstanding) of the Series A Notes at par and without payment of the Make-Whole Amount or any premium, provided that upon any partial prepayment of the Series A Notes pursuant to Section 8.2 or Section 8.3 or purchase of the Series A Notes permitted by Section 8.6 the principal amount of each required prepayment of the Series A Notes becoming due under this Section 8.1(a) on and after the date of such prepayment or purchase shall be reduced in the same proportion as the aggregate unpaid principal amount of the Series A Notes is reduced as a result of such prepayment or purchase; and

(b) on June 30 in each year, commencing June 30, 2003 and ending June 30, 2009 (herein called "Series B Fixed Payment Dates"), both inclusive, the Company will prepay \$2,727,273 principal amount (or such lesser principal amount as shall then be outstanding) of the Series B Notes at par and without payment of the Make-Whole Amount or any premium, provided that upon any partial prepayment of the Series B Notes pursuant to Section 8.2 or Section 8.3 or purchase of the Series B Notes permitted by Section 8.6 the principal amount of each required prepayment of the Series B Notes becoming due under this Section 8.1(b) on and after the date of such prepayment or purchase shall be reduced in the same proportion as the aggregate unpaid principal amount of the Series B Notes is reduced as a result of such prepayment or purchase.

The Series A Fixed Payment Dates and the Series B Fixed Payment Dates are collectively referred to as the "Fixed Payment Dates."

Section 8.2. Optional Prepayments. (a) Without Make-Whole Amount. In addition to the prepayments required by Section 8.1, the Company, at its option, upon notice as provided below, shall have the privilege (which shall be non-cumulative) of prepaying outstanding Notes

on any Fixed Payment Date in units of \$100,000 or an integral multiple of \$10,000 in excess thereof, by payments of the principal amount of the Notes to be prepaid and accrued interest thereon to the date of such payment and without premium; provided, however that (i) the principal amount of Series A Notes that may be prepaid pursuant to this Section 8.2(a) on any one Series A Fixed Payment Date shall not exceed the principal amount of the Series A Notes required to be prepaid pursuant to Section 8.1(a) on such Series A Fixed Payment Date, (ii) the principal amount of Series B Notes that may be prepaid pursuant to this Section 8.2(a) on any one Series B Fixed Payment Date shall not exceed the principal amount of the Series B Notes required to be prepaid pursuant to Section 8.1(b) on such Series B Fixed Payment Date, (iii) the aggregate amount of all Notes prepaid pursuant to this Section 8.2(a) shall not exceed \$3,333,333 for the Series A Notes and \$10,000,000 for the Series B Notes and (iv) the Company shall concurrently with any prepayment pursuant to this Section 8.2(a) prepay the same pro rata portion of each series of Notes.

(b) With Make-Whole Amount. In addition to the prepayments required by Section 8.1 and the rights of prepayment set forth in Section 8.2(a), the Company may, at its option, upon notice as provided below, prepay at any time all, or from time to time any part of, the Notes, in units of \$1,000,000 or an integral multiple of \$10,000 in excess thereof in the case of a partial prepayment, at 100% of the principal amount so prepaid, together with interest accrued thereon to the date of such prepayment, plus the Make-Whole Amount determined for the prepayment date with respect to such principal amount, provided that the Company shall concurrently with any prepayment pursuant to this Section 8.2(b) prepay the same pro rata portion of each series of Notes.

(c) Notices of Optional Prepayments. The Company will give each holder of Notes written notice of each optional prepayment under Section 8.2(a) and Section 8.2(b) not less than 30 days and not more than 60 days prior to the date fixed for such prepayment. Each such notice shall specify such date, the aggregate principal amount and series of the Notes to be prepaid on such date, the principal amount and series of each Note held by such holder to be prepaid (determined in accordance with Section 8.4), and the interest to be paid on the prepayment date with respect to such principal amount being prepaid, and, in the case of prepayments made pursuant to Section 8.2(b), shall be accompanied by a certificate of a Senior Financial Officer as to the estimated Make-Whole Amount due in connection with such prepayment (calculated as if the date of such notice were the date of the prepayment), setting forth the details of such computation. Two Business Days prior to such prepayment, the Company shall deliver to each holder of Notes a certificate of a Senior Financial Officer specifying the calculation of such Make-Whole Amount as of the specified prepayment date.

Section 8.3. Prepayment on Failure of Noteholders to Consent to Change of Control. In the event that the Company shall request the holders of the Notes in writing to consent to a Change of Control and the holder or holders of any Notes shall, within 30 days following the receipt of such a request, have refused in writing to consent to such a Change of Control, then the Company may at its option, but shall prior to the Change of Control, at any time within 30 days after the earlier of (x) the receipt of a response to such request from the holder or holders of 100% of the outstanding Notes, or (y) the expiration of such 30 day period, and upon not less than three Business Days prior written notice, prepay all (but not less than all) Notes held by

each holder which has refused to consent to such Change of Control by prepayment of the principal amount thereof and accrued interest thereon to the date of such prepayment, but without any premium or Make Whole Amount. Any holder which has failed to respond in writing to such request prior to the expiration of such 30 day period shall, for all purposes hereof, be deemed to have consented to such Change of Control. Any request by the Company made pursuant to this Section 8.3 shall set forth (i) a summary of the transaction or transactions causing the Change of Control, (ii) the name and address of the "person" described in clause (i) or (ii) of the definition of the term "Change of Control" set forth below, (iii) such information relating to the acquiror and pro forma financial or other information as would be reasonably necessary for each holder to make an informed decision with respect to such request, (iv) a statement as to whether, at the time of such Change of Control and after giving effect thereto, either any Event of Default or any event which, with the passage of time or giving of notice, or both, would become an Event of Default, shall have occurred and be continuing and (v) a specific reference to this Section 8.3 and the requirement that the holders must respond in writing by the date set forth in the notice and that failure to respond in writing by such specified date shall be deemed consent by such holder to the Change of Control. In the event that the Company shall receive a response to its request from any holder of a Note, it will promptly deliver a copy thereof to all other holders of Notes.

For purposes of this Agreement, the term "Change of Control" shall mean and shall be deemed to have occurred, (i) upon the Acquisition by any "person" (as that term is used in Sections 13(d) and 14(d)(2) of the Exchange Act) of beneficial ownership, direct or indirect, of more than 50% of the outstanding Voting Stock of the Company, or (ii) upon the Acquisition of the Company, or all or substantially all of its assets by, or the combination of the Company, or all or substantially all of its assets with, another "person" (as defined above), unless, in the case of either of the foregoing clauses (i) or (ii), the acquiring or surviving "person" shall be a corporation more than 50% of the outstanding Voting Stock of which is owned, immediately after such Acquisition or combination, by the owners of the Voting Stock of the Company immediately prior to such Acquisition or combination. The term "Acquisition" shall mean the earlier to occur of (x) the actual possession of the subject Voting Stock or assets, and (y) the consummation of any transaction or series of related transactions which, with the passage of time, will give such person the actual possession thereof. The term "Voting Stock" shall mean securities of any class or classes, the holders of which are ordinarily, in the absence of contingencies, entitled to elect a majority of the corporate directors (or persons performing similar functions).

Section 8.4. Allocation of Partial Prepayments. In the case of each partial prepayment of the Notes pursuant to Sections 8.2(a) and 8.2(b), the principal amount of the Notes to be prepaid shall be allocated among all of the Notes at the time outstanding in proportion, as nearly as practicable, to the respective unpaid principal amounts thereof. All partial prepayments made pursuant to Section 8.3 shall be applied only to the Notes of the holders who have refused in writing to consent to a Change of Control.

Section 8.5. Maturity; Surrender, Etc. In the case of each prepayment of Notes pursuant to this Section 8, the principal amount of each Note to be prepaid shall mature and become due and payable on the date fixed for such prepayment, together with interest on such principal

amount accrued to such date and the applicable Make-Whole Amount, if any. From and after such date, unless the Company shall fail to pay such principal amount when so due and payable, together with the interest and Make-Whole Amount, if any, as aforesaid, interest on such principal amount shall cease to accrue. Any Note paid or prepaid in full shall be surrendered to the Company and cancelled and shall not be reissued, and no Note shall be issued in lieu of any prepaid principal amount of any Note.

Section 8.6. Purchase of Notes. The Company will not and will not permit any Affiliate to purchase, redeem, prepay or otherwise acquire, directly or indirectly, any of the outstanding Notes except upon the payment or prepayment of the Notes in accordance with the terms of this Agreement and the Notes. The Company will promptly cancel all Notes acquired by it or any Affiliate pursuant to any payment, prepayment or purchase of Notes pursuant to any provision of this Agreement and no Notes may be issued in substitution or exchange for any such Notes.

Section 8.7. Make-Whole Amount. The term "Make-Whole Amount" means, with respect to any Note, an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments with respect to the Called Principal of such Note over the amount of such Called Principal, provided that the Make-Whole Amount may in no event be less than zero. For the purposes of determining the Make-Whole Amount, the following terms have the following meanings:

"Called Principal" means, with respect to any Note, the principal of such Note that is to be prepaid pursuant to Section 8.2(b) or has become or is declared to be immediately due and payable pursuant to Section 12.1, as the context requires.

"Discounted Value" means, with respect to the Called Principal of any Note, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on the Notes is payable) equal to the Reinvestment Yield with respect to such Called Principal.

"Reinvestment Yield" means, with respect to the Called Principal of any Note, 0.50% over the yield to maturity implied by (i) the yields reported, as of 10:00 A.M. (New York City time) on the second Business Day preceding the Settlement Date with respect to such Called Principal, on page "PX-1" of the Bloomberg Financial Markets Service Screen (or, if not available, any other nationally recognized trading screen reporting on-line intraday trading in U.S. Treasury securities) for actively traded U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or (ii) if no such nationally recognized trading screen reporting on-line intraday trading in United States government securities is available, the Treasury Constant Maturity Series Yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of

such Called Principal as of such Settlement Date. Such implied yield will be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond-equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between (1) the actively traded U.S. Treasury security with the duration closest to and greater than the Remaining Average Life and (2) the actively traded U.S. Treasury security with the duration closest to and less than the Remaining Average Life.

"Remaining Average Life" means, with respect to any Called Principal, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) the principal component of each Remaining Scheduled Payment with respect to such Called Principal by (b) the number of years (calculated to the nearest one-twelfth year) that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

"Remaining Scheduled Payments" means, with respect to the Called Principal of any Note, all payments of such Called Principal and interest thereon that would be due after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date, provided that if such Settlement Date is not a date on which interest payments are due to be made under the terms of the Notes, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date pursuant to Section 8.2 or 12.1.

"Settlement Date" means, with respect to the Called Principal of any Note, the date on which such Called Principal is to be prepaid pursuant to Section 8.2 or has become or is declared to be immediately due and payable pursuant to Section 12.1, as the context requires.

Section 9. Affirmative Covenants.

The Company covenants that so long as any of the Notes are outstanding:

Section 9.1. Compliance with Law. The Company will, and will cause each of its Subsidiaries to, comply with all laws, ordinances or governmental rules or regulations to which each of them is subject, including, without limitation, Environmental Laws, and will obtain and maintain in effect all licenses, certificates, permits, franchises and other governmental authorizations necessary to the ownership of their respective properties or to the conduct of their respective businesses, in each case, except to the extent that non-compliance with such laws, ordinances or governmental rules or regulations, or failure to obtain or maintain in effect such licenses, certificates, permits, franchises and other governmental authorizations, could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

Section 9.2. Insurance. The Company will, and will cause each of its Subsidiaries to, maintain, with financially sound and reputable insurers, insurance with respect to their respective properties and businesses against such casualties and contingencies, of such types, on such terms

and in such amounts (including deductibles, co-insurance and self-insurance, if adequate reserves are maintained with respect thereto) as is customary in the case of entities of established reputations engaged in the same or a similar business and similarly situated.

Section 9.3. Maintenance of Properties. The Company will, and will cause each of its Subsidiaries to, maintain and keep, or cause to be maintained and kept, their respective Material properties in good repair, working order and condition (other than ordinary wear and tear), so that the business carried on in connection therewith may be properly conducted at all times, provided that this Section shall not prevent the Company or any Subsidiary from discontinuing the operation and the maintenance of any of its properties if such discontinuance is desirable in the conduct of its business.

Section 9.4. Payment of Taxes and Claims. The Company will, and will cause each of its Subsidiaries to, file all tax returns required to be filed in any jurisdiction and to pay and discharge all taxes shown to be due and payable on such returns and all other taxes, assessments, governmental charges, or levies imposed on them or any of their properties, assets, income or franchises, to the extent such taxes and assessments have become due and payable and before they have become delinquent and all claims for which sums have become due and payable that have or might become a Lien on properties or assets of the Company or any Subsidiary, provided that neither the Company nor any Subsidiary need pay any such tax or assessment or claims if (a) the amount, applicability or validity thereof is contested by the Company or such Subsidiary on a timely basis in good faith and in appropriate proceedings, and the Company or a Subsidiary has established adequate reserves therefor in accordance with GAAP on the books of the Company or such Subsidiary or (b) the nonpayment of all such taxes and assessments in the aggregate could not reasonably be expected to have a Material Adverse Effect.

Section 9.5. Corporate Existence, Etc. The Company will at all times preserve and keep in full force and effect its corporate existence. Subject to Section 10.8, the Company will at all times preserve and keep in full force and effect the corporate existence of each of its Restricted Subsidiaries (unless merged into the Company or a Wholly-Owned Restricted Subsidiary or dissolved and the property and assets of such Subsidiary are divided up to the Company or to a Wholly-Owned Restricted Subsidiary) and all rights and franchises of the Company and its Subsidiaries unless, in the good faith judgment of the Company, the termination of or failure to preserve and keep in full force and effect such corporate existence, right or franchise could not, individually or in the aggregate, have a Material Adverse Effect.

Section 9.6. Payment of Principal, Make-Whole Amount and Interest. The Company will pay or cause to be paid when due the principal and interest, and Make-Whole Amount, if any, to become due in respect of all the Notes according to the terms thereof.

Section 9.7. Keeping of Books. The Company will, and will cause each Subsidiary to, (a) at all times keep proper books of record and account in which full, true and correct entries will be made of its transactions in accordance with GAAP; and (b) set aside on its books from its earnings, for the fiscal year ending December 31, 2002, and each fiscal year thereafter, proper reserves which, in accordance with GAAP, should be set aside from such earnings in connection with its business.

Section 9.8. Guaranty by Subsidiaries. The Company will cause each Subsidiary which delivers a Guaranty to any Person (collectively, the "Subsidiary Guarantors") in respect of any Indebtedness of the Company outstanding under the Revolving Credit Agreement to concurrently enter into a Subsidiary Guaranty, and within five Business Days thereafter shall deliver to each of the holders of the Notes the following items:

(a) an executed counterpart of such Subsidiary Guaranty or joinder agreement in respect of an existing Subsidiary Guaranty, as appropriate;

(b) an executed counterpart of an intercreditor agreement among the holders of the Notes and each such Person to which a Subsidiary is then delivering a Guaranty giving rise to the requirements of this Section 9.8, which agreement shall be in form and substance reasonably satisfactory to the holders of the Notes and shall provide that the proceeds from the enforcement of all such Subsidiary Guaranties shall be shared on an equal and ratable basis among the holders of the Notes and such other Persons; and

(c) an opinion of counsel satisfactory to the Required Holders to the effect that such Subsidiary Guaranty has been duly authorized, executed and delivered and constitutes the legal, valid and binding contract and agreement of such Subsidiary enforceable in accordance with its terms, except as an enforcement of such terms may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws affecting the enforcement of creditors' rights generally and by general equitable principles.

Section 10. Negative Covenants.

The Company covenants that so long as any of the Notes are outstanding:

Section 10.1. Financial Covenants.

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

(b) Funded Indebtedness Limitation. At no time shall the Company permit the ratio of (i) Consolidated Funded Indebtedness of the Company and its Restricted Subsidiaries to (ii) Consolidated Capitalization to exceed 0.55 to 1.00; provided that for purposes of this Section 10.1(b) all Indebtedness secured pursuant to the provisions of Sections 10.3(b), (c) and (d) shall constitute Funded Indebtedness.

(c) Secured Funded Indebtedness Limitation. The Company will not create, incur, issue, assume or become liable, contingently or otherwise, in respect of any secured Funded Indebtedness other than secured Funded Indebtedness incurred or assumed solely for the purpose of financing the acquisition of any property and secured only as permitted under Sections 10.3(b), (c) and (d), provided that

(x) the aggregate unpaid principal amount of all Indebtedness of the Company and its Restricted Subsidiaries secured by the mortgages or Liens permitted by Sections 10.3(b), (c) and (d) shall not at any time exceed an amount equal to 10% of Consolidated Capitalization, and

(y) the sum, without duplication, of (i) the aggregate unpaid principal amount of all Indebtedness of Restricted Subsidiaries permitted by Section 10.2(a)(iii)(A) (excluding Specified Subsidiary Indebtedness), (ii) the aggregate unpaid principal amount of all Indebtedness of the Company secured pursuant to the provisions of Sections 10.3(b), (c) and (d), and (iii) the aggregate amount of liabilities of the Company and its Restricted Subsidiaries secured by Liens permitted pursuant to the provisions of Section 10.3(k), shall not at any time exceed 20% of Consolidated Capitalization.

Section 10.2. Limitations on Restricted Subsidiaries. The Company will not cause, suffer or permit any Restricted Subsidiary to:

(a) create, incur, issue, assume or become or be liable, contingently or otherwise, in respect of any Indebtedness except:

(i) Indebtedness owing to the Company or to a Wholly-Owned Restricted Subsidiary,

(ii) unsecured accounts payable and other unsecured obligations (other than as a result of borrowing) incurred in the ordinary course of business of such Subsidiary, and

(iii) Indebtedness in addition to that described in subclauses (i) and (ii) above; provided that

(A) the aggregate principal amount of all Indebtedness of Restricted Subsidiaries (other than as described in subclauses (i) and (ii) above and other than Specified Subsidiary Indebtedness) shall not at any time exceed 10% of Consolidated Capitalization;

(B) the sum, without duplication, of (x) the aggregate unpaid principal amount of all such Indebtedness permitted by subclause (iii)(A), (y) the aggregate unpaid principal amount of all Indebtedness of the Company secured pursuant to the provisions of Sections 10.3(b), (c) and (d), and (z) the aggregate amount of liabilities of the Company and its Restricted Subsidiaries secured by Liens permitted pursuant to the provisions of Section 10.3(k), shall not at any time exceed 20% of Consolidated Capitalization; and

(C) at the time of creation, incurrence, issuance, assumption or guarantee thereof and after giving effect thereto and to the application of

the proceeds thereof, no Default or Event of Default would exist (including, without limitation, under Section 10.1(b) hereof); or

(b) issue or sell any shares of its capital stock or securities convertible into such capital stock except (i) issuance or sale of directors' qualifying shares, (ii) issuance or sale to the Company or to any Wholly-Owned Restricted Subsidiary, (iii) issuance or sale of additional shares of stock of any such Subsidiary to any holders thereof entitled to receive or purchase such additional shares through the declaration of a stock dividend or through the exercise of preemptive rights and (iv) issuance or sale to any Substantially-Owned Restricted Subsidiary for fair value, provided that the Dilution of the Company's and its Restricted Subsidiaries' interests in the Subsidiary whose shares of capital stock or convertible securities are so issued or sold shall be treated as a sale of assets by the Company and such sale or deemed sale shall be permitted by Section 10.8; or

(c) sell, assign, transfer or otherwise dispose of any shares of capital stock of any class of any other Restricted Subsidiary, or any other security of, or any Indebtedness owing to it by, any other Restricted Subsidiary (except in each case to the Company or to a Wholly-Owned Restricted Subsidiary) unless such sale, assignment, transfer or other disposition (i) shall be to a Substantially-Owned Restricted Subsidiary for fair value and the Dilution of the Company's and its Restricted Subsidiaries' interests in the Subsidiary whose shares of capital stock, securities or Indebtedness are so sold, assigned, transferred or disposed of shall be treated as a sale of assets of the Company and such sale or deemed sale shall be permitted by Section 10.8 or (ii) shall meet all the conditions set forth in Section 10.7 which would be applicable to a similar disposition made by the Company; or

(d) consolidate with or merge into any other corporation or permit any other corporation to merge into it, except a merger into or consolidation with (i) the Company, (ii) any Wholly-Owned Restricted Subsidiary or (iii) any other corporation if, immediately thereafter, (y) the surviving corporation shall be a Restricted Subsidiary, and (z) the Company shall be in full compliance with all the terms and provisions of this Agreement and the Notes; or

(e) sell, lease, transfer or otherwise dispose of all or any substantial part of its property and assets except (i) to the Company or any Wholly-Owned Restricted Subsidiary or (ii) in the case of a sale to any other Person, in compliance with all applicable requirements of Sections 10.7, 10.8 and 10.11; or

(f) make any Investments or commitments to make Investments except as expressly permitted by Section 10.5.

Any corporation which becomes a Restricted Subsidiary after the date hereof shall for all purposes of this Section 10.2 be deemed to have created, assumed or incurred, at the time it becomes a Restricted Subsidiary, all Indebtedness of such corporation existing immediately after it becomes a Restricted Subsidiary.

Section 10.3. Limitations on Liens. The Company will not itself, and will not permit or suffer any Restricted Subsidiary to, create or incur or suffer to be created or incurred or to exist any mortgage, Lien, security interest, charge or encumbrance of any kind on, or pledge of, any property or assets of any kind, real or personal, tangible or intangible, of the Company or any such Subsidiary, whether owned on the Effective Date or thereafter acquired, or acquire or agree to acquire any property or assets of any kind under a conditional sale agreement or other title retention agreement or file or permit the filing of any financing statement under the Uniform Commercial Code or other similar notice under any other similar statute without equally and ratably securing the Notes with all other obligations secured thereby and which security shall be created and conveyed by documentation (which may include an intercreditor agreement) determined prior to such conveyance to be satisfactory in scope, form and substance to the Required Holders and which security shall continue in full force and effect until either (x) the same is released by the Required Holders, (y) all other obligations secured thereby are discharged, or (z) the security is released by the holders of all such other obligations, and in any case the Notes shall have the benefit, to the full extent that the holders may be entitled thereto under applicable law, of an equitable Lien on such property or assets equally and ratably securing the Notes; provided, however, that the provisions of this Section 10.3 shall not prevent or restrict the creation, incurring or existence of any of the following:

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

(b) purchase money mortgages or other Liens on real property (including leaseholds) and fixtures thereon, acquired by the Company or any such Subsidiary, to secure the purchase price of such property (or to secure Indebtedness incurred solely for the purpose of financing the acquisition of any such property to be subject to such mortgage or other Lien) and created contemporaneously with such acquisition or within 180 days thereafter, or mortgages or other Liens existing on any such property at the time of acquisition of such property by the Company or by such Subsidiary, whether or not assumed, or any mortgage or Lien on real property of such Subsidiary existing at the time of acquisition of such Subsidiary, provided that at the time of the acquisition of the property by the Company or a Restricted Subsidiary, or at the time of the acquisition of the Restricted Subsidiary by the Company, as the case may be, (i) the principal amount of the Indebtedness secured by each such mortgage or Lien, plus the principal amount of all other Indebtedness secured by mortgages or Liens on the same property, shall not exceed 75% (100% in the case of Capitalized Leases) of the cost (which shall be deemed to include the amount of all Indebtedness secured by mortgages or other Liens, including existing Liens, on such property) of such property to the Company or any such Subsidiary, or 75% (100% in the case of Capitalized Leases) of the fair value thereof (without deduction of the Indebtedness secured by mortgages or Liens on such property) at the time of the acquisition thereof by the Company or such Subsidiary, whichever is the lesser, and (ii) every mortgage or Lien shall apply only to the property originally subject thereto and fixed improvements, accessions and attachments constructed or located thereon;

(c) refundings or extensions of the mortgages or Liens permitted in the foregoing clause (b) applying only to the same property theretofore subject to the same and fixed improvements, accessions and attachments constructed or located thereon and for amounts not exceeding the greater of (i) the principal amounts of the Indebtedness so refunded or extended at the time of the refunding or extension thereof or (ii) amounts of additional Indebtedness then permitted under all applicable provisions of Section 10.1, provided that the principal amount of such Indebtedness, plus the principal amount of all other Indebtedness secured by mortgages or Liens on the same property, shall not exceed 75% (100% in the case of Capitalized Leases) of the fair value thereof (without deduction of the Indebtedness secured by mortgages or Liens on such property) at the time of the refunding or extension;

(d) the owning or acquiring or agreeing to acquire machinery or equipment useful for the business of the Company or any such Subsidiary subject to or upon chattel mortgages or conditional sale agreements or other title retention agreements, provided that the principal amounts of the Indebtedness secured by such chattel mortgages, plus the aggregate amounts payable under such conditional sale agreements and other title retention agreements, shall not exceed the limitations set forth in Section 10.1(c);

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

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

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

(h) Liens for taxes not yet subject to penalties for non-payment or contested as permitted by Section 9.4, or survey exceptions, or encumbrances, easements or reservations of, or rights of others for, rights of way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real properties, which encumbrances, easements, reservations, rights and restrictions do not in the aggregate materially detract from the value of said properties or materially

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

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

(j) any arrangement permitted by Section 10.9;

(k) inchoate Liens arising under ERISA to secure contingent liabilities under said Act; or

(l) Liens on accounts receivable and ancillary rights sold (or in which participating interests are sold) in compliance with all applicable requirements of Section 10.8,

provided, however, that the aggregate unpaid principal amount of all Indebtedness of the Company and its Restricted Subsidiaries secured by the mortgages or Liens of the types described in Sections 10.3(b), (c) and (d) shall not at any time exceed the amounts permitted pursuant to Sections 10.1(c) and 10.2(a)(iii)(B).

For purposes of this Agreement, the Company or a Restricted Subsidiary shall be deemed to be the owner of any property which it has acquired or holds subject to a conditional sale agreement, Capitalized Lease or other arrangement pursuant to which the property has been retained by or vested in some other person for security purposes and such retention or vesting shall constitute a Lien hereunder.

Section 10.4. Limitations on Guaranties. The Company will not itself, and will not permit any Restricted Subsidiary to, guarantee any dividend, or guarantee any obligation or Indebtedness, of any other Person other than (a) guaranties by the Company of obligations or Indebtedness of a Restricted Subsidiary which such Subsidiary shall be authorized to incur pursuant to the provisions of this Agreement, (b) guaranties incurred in the ordinary course of business of the Company or of a Restricted Subsidiary, (c) guaranties by the Company of Indebtedness of Persons other than Restricted Subsidiaries if, and to the extent that, immediately after giving effect thereto, no Default or Event of Default would exist (including, without limitation, under Section 10.1(b), treating all such guaranties as Funded Indebtedness for purposes of such determination), (d) Subsidiary Guaranties and (e) Permitted Guaranties.

Section 10.5. Limitations on Investments. The Company will not itself, and will not permit any Restricted Subsidiary to, make any Investment, or any commitment to make any Investment, if, immediately after giving effect to any such proposed Investment, (a) the aggregate amount of all Investments, including Investments made prior to the Effective Date (all such Investments to be taken at the cost thereof at the time of making such Investment without allowance for any subsequent write-offs or appreciation or depreciation thereof, but less any amount repaid or recovered on account of capital or principal), shall exceed 30% of the

Consolidated Tangible Net Worth of the Company and its Restricted Subsidiaries, or (b) Consolidated Funded Indebtedness shall exceed 55% of Consolidated Capitalization.

Section 10.6. Limitations on Dividends. The Company will not declare or pay, or set apart any funds for the payment of, any dividends (other than dividends payable in common stock of the Company) on any shares of capital stock of any class of the Company, or apply any of its funds, property or assets to, or set apart any funds, property or assets for, the purchase, redemption or other retirement of, or make any other distribution, by reduction of capital or otherwise, in respect of, any shares of capital stock of any class of the Company, unless, immediately after giving effect to such action (a) no Default or Event of Default would exist (including, without limitation, under Section 10.1(b) hereof), and (b) the sum of

(1) the amounts declared and paid or payable as, or set apart for, dividends (other than dividends paid or payable in common stock of the Company) on, or distributions (taken at cost to the Company or fair value at time of distribution, whichever is higher) in respect of, all shares of capital stock of all classes of the Company subsequent to December 31, 2001, and

(2) the excess, if any, of the amounts applied to, or set apart for, the purchase, redemption or retirement of all shares of capital stock of all classes of the Company subsequent to December 31, 2001, over the sum of (i) such amounts as shall have been received as the net cash proceeds of sales of shares of capital stock of all classes of the Company subsequent to December 31, 2001, plus (ii) the aggregate principal amount of all Indebtedness of the Company and its Subsidiaries converted into or exchanged for shares of capital stock of the Company subsequent to December 31, 2001,

would not be in excess of (x) \$30,000,000 plus (or minus in the case of a deficit) (y) the Consolidated Net Income of the Company and its Restricted Subsidiaries accrued subsequent to December 31, 2001. The foregoing provisions of this Section 10.6 to the contrary notwithstanding (i) the Company may pay any dividend within 90 days of the date of its declaration if, on the date of declaration, such dividend could properly have been paid within the limitations of this Section 10.6, and (ii) the Company may pay regular dividends on or make payments or purchases required to be made at the time when made by the terms of any sinking fund, purchase fund or mandatory redemption requirement in respect of any outstanding shares of preferred stock of the Company originally issued for cash but all amounts so paid or applied pursuant to clauses (i) and (ii) above shall be included in any subsequent computation of restricted payments under this Section 10.6. The Company will not declare any dividend to be payable more than 90 days after the date of declaration thereof. The Company will not declare any dividend if an Event of Default shall have occurred and be continuing.

Section 10.7. Limitations on Dispositions of Stock or Indebtedness of Restricted Subsidiaries. The Company will not sell, assign, transfer or otherwise dispose of (except to a Wholly-Owned Restricted Subsidiary) any shares of capital stock of any class of any Restricted Subsidiary, or any other security of, or any Indebtedness owing to the Company by, any such Restricted Subsidiary, unless

(a) (i) all of the capital stock and other securities owned by the Company and its Restricted Subsidiaries, and the entire Indebtedness of such Restricted Subsidiary at the time owing to the Company and all its other Restricted Subsidiaries, shall be sold, assigned, transferred or otherwise disposed of, at the same time for cash, (ii) such Restricted Subsidiary shall not, at the time of such sale, assignment, transfer or other disposition, own either (x) any shares of capital stock of any class or any other security or any Indebtedness of any other Restricted Subsidiary of the Company which is not being simultaneously disposed of as permitted by this Section 10.7 or (y) any Indebtedness of the Company, and (iii) such sale, assignment or transfer is permitted by Section 10.8; or

(b) such sale, assignment, transfer or other disposition is to a Substantially-Owned Restricted Subsidiary for fair value and the Dilution of the Company's and its Restricted Subsidiaries' interests in the Subsidiary whose shares of capital stock, securities or Indebtedness are so sold, assigned, transferred or disposed of shall be treated as a sale of assets of the Company and shall be in compliance with the applicable requirements of Section 10.8.

Section 10.8. Limitations on Mergers, Consolidations and Sales of Assets. The Company will not (a) consolidate with or merge into any other Person, or permit any other Person to merge into the Company, unless (i) the surviving or continuing Person shall be either the Company or another solvent corporation organized under the laws of any state of the United States or the District of Columbia having long term unsecured debt which is rated "BBB" or better by Standard & Poor's Corporation or "Baa" or better by Moody's Investors Service, Inc., (ii) the due and punctual payment of the principal of and Make-Whole Amount, if any, and interest on all of the Notes according to their tenor, and this Agreement to be performed or observed by the Company are expressly assumed in writing by the surviving corporation and the surviving corporation shall furnish to the holders of the Notes an opinion of counsel satisfactory to such holders to the effect that the instrument of assumption has been duly authorized, executed and delivered and constitutes the legal, valid and binding contract and agreement of the surviving corporation enforceable in accordance with its terms, except as enforcement of such terms may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws affecting the enforcement of creditors' right generally and by general equitable principles, and (iii) no Event of Default shall exist at the time of, or result from, such merger or consolidation; or (b) sell, lease, transfer or otherwise dispose of all or any substantial part of its property and assets.

For the purposes of this Section 10.8 and Section 10.2(e), a sale, lease, transfer or disposition of properties or assets of the Company or a Restricted Subsidiary shall be deemed to be of a "substantial part" thereof only if the fair market value of such properties or assets, when added to the fair market value of all other properties or assets sold, leased, transferred or disposed of by the Company and its Restricted Subsidiaries, other than (x) in the ordinary course of business, or (y) in an Approved Transaction, during the 365 day period ending on the date of the consummation of such sale, lease, transfer or disposition exceeds 15% of the Consolidated Assets of the Company and its Restricted Subsidiaries determined as of the end of the Company's immediately preceding fiscal year.

As used herein, the term "Approved Transaction" shall mean any sale, lease, transfer or disposition of properties or assets to the extent that the Company shall, within 5 Business Days of such sale, lease, transfer or disposition, certify in writing to each holder of outstanding Notes that such transaction shall constitute an "Approved Transaction" for all purposes hereof.

The Company will, on a date not later than the 365th day after the occurrence of any Approved Transaction, apply an amount equal to the after tax proceeds of each Approved Transaction to either

(i) the purchase, acquisition or construction of capital assets which are useful and to be used in the surfactant, polymer, or specialty chemical business of the Company or a Restricted Subsidiary or a line of business reasonably related to the foregoing or any other line of business in which the Company and its Subsidiaries are engaged as of the Effective Date and described in the 10-K; or

(ii) the prepayment of unsecured Funded Indebtedness of the Company, including the concurrent prepayment of Notes pursuant to the provisions of Section 8.2(b) hereof pro rata with all other unsecured Funded Indebtedness then being prepaid;

provided, however, that to the extent that, at any time, the fair market value of all properties or assets which were the subject of Approved Transactions (an amount equal to the net after tax proceeds of which have not theretofore been applied as contemplated in clause (i) or clause (ii) above) exceeds 10% of the Consolidated Assets of the Company and its Restricted Subsidiaries, determined as of the end of the fiscal year of the Company immediately preceding any determination hereunder, the Company will, on a date not later than the 30th day after such determination, apply the net after tax proceeds of such excess Approved Transactions in the manner contemplated in clause (i) or clause (ii) above.

Section 10.9. Limitations on Sale-and-Leasebacks. The Company will not itself, and will not permit any Restricted Subsidiary to, enter into any arrangement, directly or indirectly, with any person whereby the Company or such Subsidiary shall sell or transfer any manufacturing plant or equipment owned or acquired by the Company or such Subsidiary and then or thereafter rent or lease, as lessee, such property or any part thereof, or other property which the Company or such Subsidiary, as the case may be, intends to use for substantially the same purpose or purposes as the property being sold or transferred, unless (a) the lease covering such property or other property shall be for a term of not less than three years, and (b) the Company could then have outstanding unsecured Funded Indebtedness under Section 10.1(b) in an amount not less than the capitalized value of the rentals payable by the Company or such Subsidiary, as the case may be, under such lease determined in accordance with GAAP.

Section 10.10. Limitations on Rentals. The Company will not itself, and will not permit any Restricted Subsidiary to, enter into, as lessee, or be a party to, any lease of property if, immediately after giving effect to such lease, the aggregate amount of Rentals (excluding up to \$2,500,000 of tank car rentals incurred during such fiscal year and any Rentals payable under Capitalized Leases or under leases between the Company and any Wholly-Owned Restricted

Subsidiary or between Wholly-Owned Restricted Subsidiaries) for any fiscal year of the Company payable by the Company and its Restricted Subsidiaries with respect to all such leases shall exceed 5% of Consolidated Tangible Net Worth of the Company and its Restricted Subsidiaries. For the purposes of this Section 10.10, the term "Rentals," with respect to any lease and for any period, shall mean the aggregate amount payable by the lessee under such lease for such period to the lessor.

Section 10.11. Transactions with Affiliates. Notwithstanding any other provision hereof, the Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into any transaction with any Affiliate of the Company (other than a Wholly-Owned Restricted Subsidiary) unless such transaction is in the ordinary course of, and pursuant to the reasonable requirements of, the Company's or such Restricted Subsidiary's business and is determined by the Board of Directors of the Company to be at least as favorable to the Company or such Restricted Subsidiary as generally obtainable at the time from persons other than Affiliates of the Company in a similar transaction.

Section 11. Events of Default.

An "Event of Default" shall exist if any of the following conditions or events shall occur and be continuing:

(a) the Company defaults in the payment of any principal or Make-Whole Amount, if any, on any Note when the same becomes due and payable, whether at maturity or at a date fixed for prepayment or by declaration or otherwise; or

(b) the Company defaults in the payment of any interest on any Note for more than five Business Days after the same becomes due and payable; or

(c) the Company defaults in the performance of or compliance with any term contained in Section 10; or

(d) the Company defaults in the performance of or compliance with any term contained herein (other than those referred to in paragraphs (a), (b) and (c) of this Section 11) and such default is not remedied within 30 days after the earlier of (i) a Responsible Officer obtaining actual knowledge of such default and (ii) the Company receiving written notice of such default from any holder of a Note (any such written notice to be identified as a "notice of default" and to refer specifically to this paragraph (d) of Section 11); or

(e) any representation or warranty made in writing by or on behalf of the Company or any Subsidiary Guarantor or by any officer of the Company or any Subsidiary Guarantor in this Agreement, any Subsidiary Guaranty or in any writing furnished in connection with the transactions contemplated hereby proves to have been false or incorrect in any material respect on the date as of which made; or

(f) (i) the Company or any Restricted Subsidiary is in default (as principal or as guarantor or other surety) in the payment of any principal of or premium or make-whole amount or interest on any Indebtedness that is outstanding in an aggregate principal amount of at least \$2,500,000 beyond any period of grace provided with respect thereto, or (ii) the Company or any Restricted Subsidiary is in default in the performance of or compliance with any term of any evidence of any Indebtedness in an aggregate outstanding principal amount of at least \$2,500,000 or of any mortgage, indenture or other agreement relating thereto or any other condition exists, and as a consequence of such default or condition such Indebtedness has become, or has been declared (or one or more Persons are entitled to declare such Indebtedness to be), due and payable before its stated maturity or before its regularly scheduled dates of payment, or (iii) as a consequence of the occurrence or continuation of any event or condition (other than the passage of time or the right of the holder of Indebtedness to convert such Indebtedness into equity interests), (x) the Company or any Restricted Subsidiary has become obligated to purchase or repay Indebtedness before its regular maturity or before its regularly scheduled dates of payment in an aggregate outstanding principal amount of at least \$2,500,000, or (y) one or more Persons have the right to require the Company or any Restricted Subsidiary so to purchase or repay such Indebtedness; or

(g) the Company or any Restricted Subsidiary (i) is generally not paying, or admits in writing its inability to pay, its debts as they become due, (ii) files, or consents by answer or otherwise to the filing against it of, a petition for relief or reorganization or arrangement or any other petition in bankruptcy, for liquidation or to take advantage of any bankruptcy, insolvency, reorganization, moratorium or other similar law of any jurisdiction, (iii) makes an assignment for the benefit of its creditors, (iv) consents to the appointment of a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, (v) is adjudicated as insolvent or to be liquidated, or (vi) takes corporate action for the purpose of any of the foregoing; or

(h) a court or governmental authority of competent jurisdiction enters an order appointing, without consent by the Company or any of its Restricted Subsidiaries, a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, or constituting an order for relief or approving a petition for relief or reorganization or any other petition in bankruptcy or for liquidation or to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding-up or liquidation of the Company or any of its Restricted Subsidiaries, or any such petition shall be filed against the Company or any of its Restricted Subsidiaries and such petition shall not be dismissed within 60 days; or

(i) a final judgment or judgments for the payment of money in excess of \$1,000,000 are rendered against one or more of the Company and its Restricted Subsidiaries and which judgments are not, within 30 days after entry thereof, bonded, discharged or stayed pending appeal or are not discharged within 60 days after the expiration of such stay or appeal; or

(j) a Change of Control shall occur and continue for more than 40 days or a default shall occur in giving notice of any Change of Control pursuant to the provisions of Section 7.1(h); or

(k) any Subsidiary Guaranty shall cease to be in full force and effect for any reason whatsoever (other than with the prior consent of the Required Holders), including, without limitation, a determination by a Governmental Authority of competent jurisdiction that either such guaranty is invalid, void or unenforceable or a Subsidiary Guarantor shall contest or deny in writing the validity or enforceability of any of its obligations under any Subsidiary Guaranty; or

(l) if (i) any Plan shall fail to satisfy the minimum funding standards of ERISA or the Code for any plan year or part thereof or a waiver of such standards or extension of any amortization period is sought or granted under Section 412 of the Code, (ii) a notice of intent to terminate any Plan shall have been or is reasonably expected to be filed with the PBGC or the PBGC shall have instituted proceedings under ERISA Section 4042 to terminate or appoint a trustee to administer any Plan or the PBGC shall have notified the Company or any ERISA Affiliate that a Plan may become a subject of any such proceedings, (iii) the aggregate "amount of unfunded benefit liabilities" (within the meaning of Section 4001(a)(18) of ERISA) under all Plans, determined in accordance with Title IV of ERISA, shall exceed \$5,000,000, (iv) the Company or any ERISA Affiliate shall have incurred or is reasonably expected to incur any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, (v) the Company or any ERISA Affiliate withdraws from any Multiemployer Plan, or (vi) the Company or any Subsidiary establishes or amends any employee welfare benefit plan that provides post-employment welfare benefits in a manner that would increase the liability of the Company or any Subsidiary thereunder; and any such event or events described in clauses (i) through (vi) above, either individually or together with any other such event or events, could reasonably be expected to have a Material Adverse Effect.

As used in Section 11(l), the terms "employee benefit plan" and "employee welfare benefit plan" shall have the respective meanings assigned to such terms in Section 3 of ERISA.

Section 12. Remedies On Default, Etc.

Section 12.1. Acceleration. (a) If an Event of Default with respect to the Company described in paragraph (g) or (h) of Section 11 (other than an Event of Default described in clause (i) of paragraph (g) or described in clause (vi) of paragraph (g) by virtue of the fact that such clause encompasses clause (i) of paragraph (g)) has occurred, all the Notes then outstanding shall automatically become immediately due and payable.

(b) If any Event of Default described in paragraph (a) of Section 11 has occurred and is continuing, any holder or holders of 25% or more in principal amount of the Notes at the time outstanding may, and if any other Event of Default has occurred and is continuing, the Required

Holders may at any time at its or their option, by notice or notices to the Company, declare all the Notes then outstanding to be immediately due and payable.

(c) In addition to the collective remedies of the holders of the Notes in clause (b), if any Event of Default described in paragraph (a) or (b) of Section 11 has occurred and is continuing, any holder of Notes at the time outstanding affected by such Event of Default may at any time, at its option, by notice or notices to the Company, declare all the Notes held by it to be immediately due and payable.

Upon any Note's becoming due and payable under this Section 12.1, whether automatically or by declaration, such Note will forthwith mature and the entire unpaid principal amount of such Note, plus (x) all accrued and unpaid interest thereon and (y) the Make-Whole Amount determined in respect of such principal amount (to the full extent permitted by applicable law), shall all be immediately due and payable, in each and every case without presentment, demand, protest or further notice, all of which are hereby waived. The Company acknowledges, and the parties hereto agree, that each holder of a Note has the right to maintain its investment in the Notes free from repayment by the Company (except as herein specifically provided for), and that the provision for payment of a Make-Whole Amount by the Company in the event that the Notes are prepaid or are accelerated as a result of an Event of Default, is intended to provide compensation for the deprivation of such right under such circumstances.

Section 12.2. Other Remedies. If any Default or Event of Default has occurred and is continuing, and irrespective of whether any Notes have become or have been declared immediately due and payable under Section 12.1, the holder of any Note at the time outstanding may proceed to protect and enforce the rights of such holder by an action at law, suit in equity or other appropriate proceeding, whether for the specific performance of any agreement contained herein or in any Note, or for an injunction against a violation of any of the terms hereof or thereof, or in aid of the exercise of any power granted hereby or thereby or by law or otherwise.

Section 12.3. Rescission. At any time after any Notes have been declared due and payable pursuant to clause (b) or (c) of Section 12.1, the Required Holders then outstanding, by written notice to the Company, may rescind and annul any such declaration and its consequences if (a) the Company has paid all overdue interest on the Notes, all principal of and Make-Whole Amount, if any, on any Notes that are due and payable and are unpaid other than by reason of such declaration, and all interest on such overdue principal and Make-Whole Amount, if any, and (to the extent permitted by applicable law) any overdue interest in respect of the Notes, at the Default Rate, (b) all Events of Default and Defaults, other than non-payment of amounts that have become due solely by reason of such declaration, have been cured or have been waived pursuant to Section 17, and (c) no judgment or decree has been entered for the payment of any monies due pursuant hereto or to the Notes. No rescission and annulment under this Section 12.3 will extend to or affect any subsequent Event of Default or Default or impair any right consequent thereon.

Section 12.4. No Waivers or Election of Remedies, Expenses, Etc. No course of dealing and no delay on the part of any holder of any Note in exercising any right, power or remedy shall operate as a waiver thereof or otherwise prejudice such holder's rights, powers or remedies. No

right, power or remedy conferred by this Agreement or by any Note upon any holder thereof shall be exclusive of any other right, power or remedy referred to herein or therein or now or hereafter available at law, in equity, by statute or otherwise. Without limiting the obligations of the Company under Section 15, the Company will pay to the holder of each Note on demand such further amount as shall be sufficient to cover all costs and expenses of such holder incurred in any enforcement or collection under this Section 12, including, without limitation, reasonable attorneys' fees, expenses and disbursements.

Section 13. Registration; Exchange; Substitution of Notes.

Section 13.1. Registration of Notes. The Company shall keep at its principal executive office a register for the registration and registration of transfers of Notes. The name and address of each holder of one or more Notes, each transfer thereof and the name and address of each transferee of one or more Notes shall be registered in such register. Prior to due presentment for registration of transfer, the Person in whose name any Note shall be registered shall be deemed and treated as the owner and holder thereof for all purposes hereof, and the Company shall not be affected by any notice or knowledge to the contrary. The Company shall give to any holder of a Note that is an Institutional Investor promptly upon request therefor, a complete and correct copy of the names and addresses of all registered holders of Notes.

Section 13.2. Transfer and Exchange of Notes. Upon surrender of any Note at the principal executive office of the Company for registration of transfer or exchange (and in the case of a surrender for registration of transfer, duly endorsed or accompanied by a written instrument of transfer duly executed by the registered holder of such Note or its attorney duly authorized in writing and accompanied by the address for notices of each transferee of such Note or part thereof), the Company shall execute and deliver, at the Company's expense (except as provided below), one or more new Notes (as requested by the holder thereof) in exchange therefor, in an aggregate principal amount equal to the unpaid principal amount of the surrendered Note. Each such new Note shall be payable to such Person as such holder may request and shall be substantially in the form of Exhibit 1. Each such new Note shall be dated and bear interest from the date to which interest shall have been paid on the surrendered Note or dated the date of the surrendered Note if no interest shall have been paid thereon. The Company may require payment of a sum sufficient to cover any stamp tax or governmental charge imposed in respect of any such transfer of Notes. Notes shall not be transferred in denominations of less than \$100,000, provided that if necessary to enable the registration of transfer by a holder of its entire holding of Notes, one Note may be in a denomination of less than \$100,000. Any transferee of a Note, or purchaser of a participation therein, shall, by its acceptance of such Note be deemed to make the same representations to the Company regarding the Note or participation as such Noteholder has made pursuant to Section 6.2, provided that such entity may (in reliance upon information provided by the Company, which shall not be unreasonably withheld) make a representation to the effect that the purchase by such entity of any Note will not constitute a non-exempt prohibited transaction under Section 406(a) of ERISA.

Section 13.3. Replacement of Notes. Upon receipt by the Company of evidence reasonably satisfactory to it of the ownership of and the loss, theft, destruction or mutilation of

any Note (which evidence shall be, in the case of an Institutional Investor, notice from such Institutional Investor of such ownership and such loss, theft, destruction or mutilation), and

(a) in the case of loss, theft or destruction, of indemnity reasonably satisfactory to it (provided that if the holder of such Note is, or is a nominee for, an original Noteholder or another holder of a Note with a minimum net worth of at least \$15,000,000, such Person's own unsecured agreement of indemnity shall be deemed to be satisfactory), or

(b) in the case of mutilation, upon surrender and cancellation thereof,

the Company at its own expense shall execute and deliver, in lieu thereof, a new Note, dated and bearing interest from the date to which interest shall have been paid on such lost, stolen, destroyed or mutilated Note or dated the date of such lost, stolen, destroyed or mutilated Note if no interest shall have been paid thereon.

Section 14. Payments On Notes.

Section 14.1. Place of Payment. Subject to Section 14.2, payments of principal, Make-Whole Amount, if any, and interest becoming due and payable on the Notes shall be made in Northfield, Illinois, at the principal office of the Company in such jurisdiction. The Company may at any time, by notice to each holder of a Note, change the place of payment of the Notes so long as such place of payment shall be either the principal office of the Company in such jurisdiction or the principal office of a bank or trust company in such jurisdiction.

Section 14.2. Home Office Payment. So long as any Noteholder or such Noteholder's nominee shall be the holder of any Note, and notwithstanding anything contained in Section 14.1 or in such Note to the contrary, the Company will pay all sums becoming due on such Note for principal, Make-Whole Amount, if any, and interest by the method and at the address specified for such purpose below such Noteholder's signature at the foot of this Agreement, or by such other method or at such other address as such Noteholder shall have from time to time specified to the Company in writing for such purpose, without the presentation or surrender of such Note or the making of any notation thereon, except that upon written request of the Company made concurrently with or reasonably promptly after payment or prepayment in full of any Note, such Noteholder shall surrender such Note for cancellation, reasonably promptly after any such request, to the Company at its principal executive office or at the place of payment most recently designated by the Company pursuant to Section 14.1. The Company will afford the benefits of this Section 14.2 to any Institutional Investor that is the direct or indirect transferee of any Note purchased by any Noteholder under this Agreement and that has made the same agreement relating to such Note as such Noteholder has made in this Section 14.2.

Section 15. Expenses, Etc.

Section 15.1. Transaction Expenses. Whether or not the transactions contemplated hereby are consummated, the Company will pay all costs and expenses (including reasonable

attorneys' fees of a special counsel and, if reasonably required, local or other counsel) incurred by each Noteholder or holder of a Note in connection with such transactions and in connection with any amendments, waivers or consents under or in respect of this Agreement or the Notes (whether or not such amendment, waiver or consent becomes effective), including, without limitation: (a) the costs and expenses incurred in enforcing or defending (or determining whether or how to enforce or defend) any rights under this Agreement or the Notes or in responding to any subpoena or other legal process or informal investigative demand issued in connection with this Agreement or the Notes, or by reason of being a holder of any Note, and (b) the costs and expenses, including financial advisors' fees, incurred in connection with the insolvency or bankruptcy of the Company or any Subsidiary or in connection with any work-out or restructuring of the transactions contemplated hereby and by the Notes. The Company will pay, and will save each Noteholder and each other holder of a Note harmless from, all claims in respect of any fees, costs or expenses, if any, of brokers and finders (other than those retained by such Noteholder or holder).

Section 15.2. Survival. The obligations of the Company under this Section 15 will survive the payment or transfer of any Note, the enforcement, amendment or waiver of any provision of this Agreement or the Notes, and the termination of this Agreement.

Section 16. Survival of Representations and Warranties; Entire Agreement.

All representations and warranties contained herein shall survive the execution and delivery of this Agreement and the Notes, the purchase or transfer by any Noteholder of any Note or portion thereof or interest therein and the payment of any Note, and may be relied upon by any subsequent holder of a Note, regardless of any investigation made at any time by or on behalf of such Noteholder or any other holder of a Note. All statements contained in any certificate or other instrument delivered by or on behalf of the Company pursuant to this Agreement shall be deemed representations and warranties of the Company under this Agreement made as of the date given and qualified to the extent provided therein. Subject to the preceding sentence, this Agreement and the Notes embody the entire agreement and understanding between each Noteholder and the Company and supersede all prior agreements and understandings relating to the subject matter hereof.

Section 17. Amendment and Waiver.

Section 17.1. Requirements. This Agreement and the Notes may be amended, and the observance of any term hereof or of the Notes may be waived (either retroactively or prospectively), with (and only with) the written consent of the Company and the Required Holders, except that (a) no amendment or waiver of any of the provisions of Section 1, 2, 3, 4, 5, 6 or 21 hereof, or any defined term (as it is used therein), will be effective as to any Noteholder unless consented to by such Noteholder in writing, and (b) no such amendment or waiver may, without the written consent of the holder of each Note at the time outstanding affected thereby, (i) subject to the provisions of Section 12 relating to acceleration or rescission, change the amount or time of any prepayment or payment of principal of, or reduce the rate or change the time of payment or method of computation of interest or of the Make-Whole Amount on, the

Notes, (ii) change the percentage of the principal amount of the Notes the holders of which are required to consent to any such amendment or waiver, (iii) amend any of Section 8, 11(a), 11(b), 12, 17 or 20 or (iv) give to any Note any preference over any other Note.

Section 17.2. Solicitation of Holders of Notes.

(a) Solicitation. The Company will provide each holder of the Notes (irrespective of the amount of Notes then owned by it) with sufficient information, sufficiently far in advance of the date a decision is required, to enable such holder to make an informed and considered decision with respect to any proposed amendment, waiver or consent in respect of any of the provisions hereof or of the Notes. The Company will deliver executed or true and correct copies of each amendment, waiver or consent effected pursuant to the provisions of this Section 17 to each holder of outstanding Notes promptly following the date on which it is executed and delivered by, or receives the consent or approval of, the requisite holders of Notes.

(b) Payment. The Company will not directly or indirectly pay or cause to be paid any remuneration, whether by way of supplemental or additional interest, fee or otherwise, or grant any security, to any holder of Notes as consideration for or as an inducement to the entering into by any holder of Notes of any waiver or amendment of any of the terms and provisions hereof or of the Notes unless such remuneration is concurrently paid, or security is concurrently granted, on the same terms, ratably to each holder of Notes then outstanding whether or not such holder consented to such waiver or amendment.

Section 17.3. Binding Effect, Etc. Any amendment or waiver consented to as provided in this Section 17 applies equally to all holders of Notes and is binding upon them and upon each future holder of any Note and upon the Company without regard to whether such Note has been marked to indicate such amendment or waiver. No such amendment or waiver will extend to or affect any obligation, covenant, agreement, Default or Event of Default not expressly amended or waived or impair any right consequent thereon. No course of dealing between the Company and the holder of any Note nor any delay in exercising any rights hereunder or under any Note shall operate as a waiver of any rights of any holder of such Note. As used herein, the term "this Agreement" and references thereto shall mean this Agreement as it may from time to time be amended or supplemented.

Section 17.4. Notes Held by Company, Etc. Solely for the purpose of determining whether the holders of the requisite percentage of the aggregate principal amount of Notes then outstanding approved or consented to any amendment, waiver or consent to be given under this Agreement or the Notes, or have directed the taking of any action provided herein or in the Notes to be taken upon the direction of the holders of a specified percentage of the aggregate principal amount of Notes then outstanding, Notes directly or indirectly owned by the Company or any of its Affiliates shall be deemed not to be outstanding.

Section 18. Notices.

All notices and communications provided for hereunder shall be in writing and sent (a) by telefacsimile if the sender on the same day sends a confirming copy of such notice by a

recognized overnight delivery service (charges prepaid), or (b) by registered or certified mail with return receipt requested (postage prepaid), or (c) by a recognized overnight delivery service (with charges prepaid). Any such notice must be sent:

(i) if to a Noteholder or such Noteholder's nominee, to such Noteholder or such Noteholder's nominee at the address specified for such communications below such Noteholder's signature at the foot of this Agreement, or at such other address as such Noteholder or such Noteholder's nominee shall have specified to the Company in writing,

(ii) if to any other holder of any Note, to such holder at such address as such other holder shall have specified to the Company in writing, or

(iii) if to the Company, to the Company at its address set forth at the beginning hereof to the attention of Chief Financial Officer with a copy to the Company's General Counsel, or at such other address as the Company shall have specified to the holder of each Note in writing.

Notices under this Section 18 will be deemed given only when actually received.

Section 19. Reproduction of Documents.

This Agreement and all documents relating thereto, including, without limitation, (a) consents, waivers and modifications that may hereafter be executed, (b) documents received by each Noteholder on the Effective Date (except the Notes themselves), and (c) financial statements, certificates and other information previously or hereafter furnished to each Noteholder, may be reproduced by such Noteholder by any photographic, photostatic, microfilm, microcard, miniature photographic or other similar process and such Noteholder may destroy any original document so reproduced. The Company agrees and stipulates that, to the extent permitted by applicable law, any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made by such Noteholder in the regular course of business) and any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence. This Section 19 shall not prohibit the Company or any other holder of Notes from contesting any such reproduction to the same extent that it could contest the original, or from introducing evidence to demonstrate the inaccuracy of any such reproduction.

Section 20. Confidential Information.

For the purposes of this Section 20, "Confidential Information" means information delivered to any Noteholder by or on behalf of the Company or any Subsidiary in connection with the transactions contemplated by or otherwise pursuant to this Agreement that is proprietary in nature and that was clearly marked or labeled or otherwise adequately identified when received by such Noteholder as being confidential information of the Company or such Subsidiary, provided that such term does not include information that (a) was publicly known or

otherwise known to such Noteholder prior to the time of such disclosure, (b) subsequently becomes publicly known through no act or omission by such Noteholder or any Person acting on such Noteholder's behalf, (c) otherwise becomes known to such Noteholder other than through disclosure by the Company or any Subsidiary or (d) constitutes financial statements delivered to such Noteholder under Section 7.1 that are otherwise publicly available. Each Noteholder will maintain the confidentiality of such Confidential Information in accordance with procedures adopted by such Noteholder in good faith to protect confidential information of third parties delivered to such Noteholder, provided that such Noteholder may deliver or disclose Confidential Information to (i) such Noteholder's directors, trustees, officers, employees, agents, attorneys and affiliates (to the extent such disclosure reasonably relates to the administration of the investment represented by such Noteholder's Notes), (ii) such Noteholder's financial advisors and other professional advisors who agree to hold confidential the Confidential Information substantially in accordance with the terms of this Section 20, (iii) any other holder of any Note, (iv) any Institutional Investor to which such Noteholder sells or offers to sell such Note or any part thereof or any participation therein (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 20), (v) any Person from which such Noteholder offers to purchase any security of the Company (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 20), (vi) any federal or state regulatory authority having jurisdiction over such Noteholder, (vii) the National Association of Insurance Commissioners or any similar organization, or any nationally recognized rating agency that requires access to information about such Noteholder's investment portfolio, or (viii) any other Person to which such delivery or disclosure may be necessary or appropriate (w) to effect compliance with any law, rule, regulation or order applicable to such Noteholder, (x) in response to any subpoena or other legal process, (y) in connection with any litigation to which such Noteholder is a party or (z) if an Event of Default has occurred and is continuing, to the extent such Noteholder may reasonably determine such delivery and disclosure to be necessary or appropriate in the enforcement or for the protection of the rights and remedies under such Noteholder's Notes and this Agreement. Each holder of a Note, by its acceptance of a Note, will be deemed to have agreed to be bound by and to be entitled to the benefits of this Section 20 as though it were a party to this Agreement. On reasonable request by the Company in connection with the delivery to any holder of a Note of information required to be delivered to such holder under this Agreement or requested by such holder (other than a holder that is a party to this Agreement or its nominee or any other holder that shall have previously delivered such a confirmation), such holder will confirm in writing that it is bound by the provisions of this Section 20.

Section 21. Substitution of Noteholder.

Each Noteholder shall have the right to substitute any one of such Noteholder's Affiliates as the purchaser of the Notes that such Noteholder has agreed to purchase hereunder, by written notice to the Company, which notice shall be signed by both such Noteholder and such Noteholder's Affiliate, shall contain such Affiliate's agreement to be bound by this Agreement and shall contain a confirmation by such Affiliate of the accuracy with respect to it of the representations set forth in Section 6. Upon receipt of such notice, wherever the word "Noteholder" is used in this Agreement (other than in this Section 21), such word shall be deemed to refer to such Affiliate in lieu of such Noteholder. In the event that such Affiliate is so

substituted as a purchaser hereunder and such Affiliate thereafter transfers to such Noteholder all of the Notes then held by such Affiliate, upon receipt by the Company of notice of such transfer, wherever the word "Noteholder" is used in this Agreement (other than in this Section 21), such word shall no longer be deemed to refer to such Affiliate, but shall refer to such Noteholder, and such Noteholder shall have all the rights of an original holder of the Notes under this Agreement.

Section 22. Miscellaneous.

Section 22.1. Successors and Assigns. All covenants and other agreements contained in this Agreement by or on behalf of any of the parties hereto bind and inure to the benefit of their respective successors and assigns (including, without limitation, any subsequent holder of a Note) whether so expressed or not. The Company may not assign any of its rights hereunder without the written consent of the holders of the Notes.

Section 22.2. Payments Due on Non-Business Days. Anything in this Agreement or the Notes to the contrary notwithstanding, any payment of principal of or Make-Whole Amount or interest on any Note that is due on a date other than a Business Day shall be made on the next succeeding Business Day without including the additional days elapsed in the computation of the interest payable on such next succeeding Business Day.

Section 22.3. Severability. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall (to the full extent permitted by law) not invalidate or render unenforceable such provision in any other jurisdiction.

Section 22.4. Construction. Each covenant contained herein shall be construed (absent express provision to the contrary) as being independent of each other covenant contained herein, so that compliance with any one covenant shall not (absent such an express contrary provision) be deemed to excuse compliance with any other covenant. Where any provision herein refers to action to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such Person.

Section 22.5. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies hereof, each signed by fewer than all, but together signed by all, of the parties hereto.

Section 22.6. Governing Law. This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of Illinois excluding choice-of-law principles of the law of such State that would require the application of the laws of a jurisdiction other than such State.

* * * * *

The execution hereof by the Noteholders shall constitute a contract among the Company and the Noteholders for the uses and purposes hereinabove set forth.

Very truly yours,

Stepan Company

By _____
Name:
Title:

The foregoing is hereby agreed to as of the date thereof.

The Northwestern Mutual Life Insurance Company

By _____
Name:
Its Authorized Representative

Thrivent Financial for Lutherans
(f/k/a Aid Association for Lutherans)

By _____
Name:
Title:

J. Romeo & Co.

By _____
Name:
Title:

Principal Amount of Notes
to Be Exchanged

The Northwestern Mutual Life
Insurance Company
720 East Wisconsin Avenue
Milwaukee, Wisconsin 53202
Attention: Securities Department
Telecopier Number: (414) 665-7124

\$2,250,000 - Series A
\$8,181,819 - Series B

Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as "Stepan Company, 7.69% Amended and Restated Senior Notes Series A, due June 30, 2005, PPN 858586 F* 6, principal, premium or interest and Stepan Company 7.77% Amended and Restated Senior Notes, Series B, due June 30, 2010, PPN 858586 F@ 4, principal, premium or interest") to:

Bankers Trust Company
ABA #021-001-033
16 Wall Street
Insurance Unit, 4th Floor
New York, New York 10005

for credit to: The Northwestern Mutual Life Insurance Company
Account Number 00-000-027

Notices

All notices and communications to be addressed as first provided above, except notices with respect to payments and written confirmation of each such payment to be addressed, Attention: Investment Operations, Fax Number: (414) 625-6998.

Name of Nominee in which Notes are to be issued: None

Taxpayer I.D. Number: 39-0509570

Schedule A
(to Amended and Restated Note Agreement)

Principal Amount of Notes
to be Exchanged

MONY Life Insurance Company
1740 Broadway
New York, New York 10019
Attention: Capital Management Unit
Fax Number: (212) 708-2491

\$1,500,000 - Series A
\$5,454,546 - Series B

Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as "Stepan Company, 7.69% Senior Notes, Series A, due June 30, 2005 PPN 858586 F* 6, principal, premium or interest and Stepan Company, 7.77% Senior Notes, Series B, due June 30, 2010 PPN 858586 F@ 4, principal, premium or interest") to:

JP Morgan Chase Manhattan Bank
ABA #021000021
For credit to Private Income Processing Account No. 900-9000-200
For further credit to Account G52963

Notices

All notices of payment on or in respect of the Notes and written confirmation of each such payment to:

A. To JP Morgan Chase Manhattan Bank:

(1) If by Regular Mail, Registered Mail, Certified Mail or Federal Express to:

JP Morgan Chase Manhattan Bank
14201 N. Dallas Parkway
13th Floor
Dallas, Texas 75254-2917

(2) If by fax to:

JP Morgan Chase Manhattan Bank
(469) 477-1904

B. With a Second Copy to MONY Life Insurance Company:

(1) If by Regular Mail, Registered Mail, Certified Mail or Federal Express to:

MONY Life Insurance Company
1740 Broadway
New York, NY 10019
Attention: Securities Custody Division
M.D. 6-39A

(2) If by fax to:

(212) 708-2152
Attention: Securities Custody Division
M.D. 6-39A

C. Addresses for All Other Communications

MONY Capital Management, Inc.
c/o MONY Life Insurance Company
1740 Broadway
New York, NY 10019
Telecopy No.: (212) 708-2491

Name of Nominee in which Notes are to be issued: J. ROMEO & Co.
MONY Life Insurance Company Taxpayer I.D. Number: 13-1632487

Principal Amount of Notes
to Be Exchanged

Thrivent Financial for Lutherans
4321 North Ballard Road
Appleton, Wisconsin 54919
Attention: Investment Department

\$2,250,000 - Series A
\$8,181,819 - Series B

Payments

All payments of principal, interest and premium on the account of the Notes shall be made by bank wire transfer (in immediately available funds) to:

Citibank, N.A.
ABA #021-000-089
DDA #36126473
Attn: Ann Siberon
Ref Account #846647
Thrivent Financial for Lutherans Custody Account
Stepan Company 7.69% Amended and Restated Notes, Series A, due 2005;
7.77% Amended and Restated Notes, Series B, due 2010
Private Placement Number: Series A: 858586 F* 6; Series B: 858586 F @4
Reference Purpose of Payment
Principal and Interest Breakdown

Notices

All notices on or in respect to the Notes and written confirmation of each such payment to be addressed to:

Investment Department
Thrivent Financial for Lutherans
222 West College Avenue, Floor 9
Appleton, Wisconsin 54911
Fax: 920-628-3752

and

Income Collection & Disbursement
Attn: Gay Quitsch
Account #846647
Thrivent Financial for Lutherans Custody Account
3800 Citicorp Center Tampa
Building B, Floor 1, Zone 7
Tampa, Florida 33610-9122
Fax: 813-604-1100

Name of Nominee in which Notes are to be issued: None

Taxpayer I.D. Number for Thrivent Financial for Lutherans: 39-0123480

DEFINED TERMS

Where the character or amount of any asset or liability or item of income or expense is required to be determined or any consolidation or other accounting computation is required to be made for the purposes of this Agreement, the same shall be done in accordance with GAAP, to the extent applicable, except where such principles are inconsistent with the express requirements of this Agreement.

Where any provision in this Agreement refers to action to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether the action in question is taken directly or indirectly by such Person.

As used herein, the following terms have the respective meanings set forth below or set forth in the Section hereof following such term:

"Affiliate" means, at any time, and with respect to any Person, (a) any other Person that at such time directly or indirectly through one or more intermediaries Controls, or is Controlled by, or is under common Control with, such first Person, and (b) any Person beneficially owning or holding, directly or indirectly, 10% or more of any class of voting or equity interests of the Company or any Subsidiary or any corporation of which the Company and its Subsidiaries beneficially own or hold, in the aggregate, directly or indirectly, 10% or more of any class of voting or equity interests. As used in this definition, "Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. Unless the context otherwise clearly requires, any reference to an "Affiliate" is a reference to an Affiliate of the Company.

"Assets" of any corporation means, at any date, the gross book value as shown by the books of such corporation in accordance with GAAP of all its property, whether real, personal or mixed (exclusive of franchises, licenses, permits, patents, patent applications, copyrights, trademarks, trade names, good will, experimental or organizational expense, leasehold improvements not recoverable at the expiration of a lease, unamortized debt discount and expense, deferred charges and other intangibles and treasury stock), less the sum (without duplication) of (a) all reserves for depreciation, depletion, obsolescence and amortization of its properties (other than properties excluded as hereinabove provided) as shown by the books of such corporation and all other proper reserves which in accordance with GAAP should be set aside in connection with the business conducted by such corporation, other than reserves for contingencies not allocated to any particular purpose; and (b) the amount of any write-up subsequent to December 31, 1986 in the book value of any asset owned by such corporation on such date resulting from the revaluation thereof subsequent to such date, or any write-up in excess of the cost of any asset acquired by such corporation subsequent to such date.

"Business Day" means (a) for the purposes of Section 8.7 only, any day other than a Saturday, a Sunday or a day on which commercial banks in New York City are required or authorized to be closed, and (b) for the purposes of any other provision of this Agreement, any

Schedule B
(to Amended and Restated Note Agreement)

day other than a Saturday, a Sunday or a day on which commercial banks in Chicago, Illinois, or New York, New York are required or authorized to be closed.

"Capitalized Lease" means any lease which, in accordance with GAAP, is of such a nature that payment obligations of the lessee thereunder shall have been or should be capitalized and shown as liabilities (other than current Indebtedness) upon the balance sheet of such lessee.

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

"Code" means the Internal Revenue Code of 1986, as amended from time to time, and the rules and regulations promulgated thereunder from time to time.

"Company" means Stepan Company, a Delaware corporation.

"Confidential Information" is defined in Section 20.

"Consolidated," when used in respect of the Assets, Current Indebtedness and Funded Indebtedness of the Company and its Restricted Subsidiaries means the aggregate of the assets, Current Assets, Current Indebtedness, Funded Indebtedness, respectively, of the Company and its Restricted Subsidiaries, after eliminating all intercompany items and all other items which should be eliminated in accordance with GAAP; provided, however, in determining Consolidated Assets, there shall not be included therein any amount on account of the excess of (i) the cost of acquisition of shares of any Subsidiary over the book value of the assets of such Subsidiary attributable to such shares on the books of such Subsidiary at the date of acquisition of such shares, or (ii) the book value of the assets of such Subsidiary attributable to such shares at the date of such acquisition over the cost of acquisition of such shares; provided, further, in determining Consolidated Funded Indebtedness, there shall not be included therein any duplication of Indebtedness that may arise from the guaranty by a Restricted Subsidiary of Indebtedness of the Company which constitutes Specified Subsidiary Indebtedness.

"Consolidated Capitalization" means the sum of (i) Consolidated Funded Indebtedness of the Company and its Restricted Subsidiaries, plus (ii) Consolidated Tangible Net Worth.

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

"Consolidated Net Income" means the aggregate of the net income of the Company and its Restricted Subsidiaries, after eliminating all intercompany items and portions of income properly attributable to minority interest in the stock of such Subsidiaries, all computed in accordance with GAAP.

"Consolidated Tangible Net Worth" means the aggregate of the Tangible Net Worth of the Company and its Restricted Subsidiaries, consolidated in accordance with GAAP.

"corporation" shall include corporations, joint stock companies and business trusts.

"Current Indebtedness" means all Indebtedness other than Funded Indebtedness, and, without limitation, shall include (a) all Indebtedness maturing on demand or within one year after the date as of which such determination is made, (b) final maturities and prepayments of Indebtedness and sinking fund payments (including, with respect to the Notes, not only (i) fixed prepayments, but also (ii) other prepayments on and after the date of notice of prepayment thereof pursuant to Sections 8.2 and 8.3) required to be made in respect of any Indebtedness within one year after said date, and (c) all other items (including taxes accrued as estimated) which in accordance with GAAP would be included as current liabilities.

"Default" means an event or condition the occurrence or existence of which would, with the lapse of time or the giving of notice or both, become an Event of Default.

"Default Rate" means that rate of interest that is the greater of (i) 2.00% per annum above the rate of interest stated in clause (a) of the first paragraph of the Notes or (ii) the rate of interest publicly announced by Bank One, N.A. in Chicago, Illinois as its "base" or "prime" rate.

"Definitive Agreement" means any binding, definitive written agreement with respect to any proposed transaction, event or series of transactions or events which, when fully performed, is reasonably likely to result in a Change of Control, excluding in all cases, letters of intent, proposals or similar non-definitive expressions of interest.

"Dilution" means (a) any decrease in the percentage of capital stock and other equity securities of a Restricted Subsidiary beneficially owned, directly or indirectly, by the Company and its Wholly-Owned Subsidiaries resulting from a sale, assignment, transfer or other disposition of capital stock or equity securities of a Restricted Subsidiary or (b) any increase in the minority interests in the capital stock and equity securities of a Restricted Subsidiary as a result of the issuance of capital stock and equity securities by a Restricted Subsidiary to a Person other than the Company or a Wholly-Owned Restricted Subsidiary. For purposes of determining compliance with Section 10.8, the value of any "Dilution" shall be an amount equal to the fair value of that portion of the assets of the relevant Subsidiary determined by multiplying the percentage of the capital stock and other equity securities of such Subsidiary constituting a Dilution by the fair value of all assets of such Subsidiary (assuming, in making such calculations, that all securities convertible into capital stock are so converted and giving full effect to all transactions that would occur or be required in connection with such conversion), determined at the time of the Dilution in good faith by the Company and subject to the approval of the Required Holders (which shall not be unreasonably withheld or delayed).

"Effective Date" is defined in Section 3.1.

"Environmental Laws" means any and all applicable Federal, state, local, and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions,

grants, franchises, licenses, agreements or governmental restrictions relating to public health, safety or the environment, including, without limitation, relating to releases, discharges, emissions or disposals to air, water, land or ground water, to the withdrawal or use of ground water, to the use, handling or disposal of polychlorinated biphenyls (PCB's), asbestos or urea formaldehyde, to the treatment, storage, disposal or management of hazardous substances (including, without limitation, petroleum, its derivatives, by-products or other hydrocarbons), to exposure to toxic, hazardous or other controlled, prohibited or regulated substances, or to the transportation, storage, disposal, management or release of gases or liquid substances.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

"ERISA Affiliate" means any trade or business (whether or not incorporated) that is treated as a single employer together with the Company under Section 414 of the Code.

"Event of Default" is defined in Section 11.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Fixed Payment Date" is defined in Section 8.1.

"Funded Indebtedness" means all Indebtedness (including capitalized payment obligations under Capitalized Leases) which by its terms matures more than one year from the date as of which any calculation of Funded Indebtedness is made. Funded Indebtedness shall also include the amount by which vested benefits under employee pension benefit plans exceeds the value of assets of such plans allocable to such vested benefit, if any.

"GAAP" means generally accepted accounting principles as in effect from time to time in the United States of America.

"Governmental Authority" means

(a) the government of

(i) the United States of America or any State or other political subdivision thereof, or

(ii) any jurisdiction in which the Company or any Subsidiary conducts all or any part of its business, or which asserts jurisdiction over any properties of the Company or any Subsidiary, or

(b) any entity exercising executive, legislative, judicial, regulatory or administrative functions of, or pertaining to, any such government.

"Guaranty" means, with respect to any Person, any obligation (except the endorsement in the ordinary course of business of negotiable instruments for deposit or collection) of such Person guaranteeing or in effect guaranteeing any indebtedness, dividend or other obligation of any other Person in any manner, whether directly or indirectly, including (without limitation) obligations incurred through an agreement, contingent or otherwise, by such Person:

(a) to purchase such indebtedness or obligation or any property constituting security therefor;

(b) to advance or supply funds (i) for the purchase or payment of such indebtedness or obligation, or (ii) to maintain any working capital or other balance sheet condition or any income statement condition of any other Person or otherwise to advance or make available funds for the purchase or payment of such indebtedness or obligation;

(c) to lease properties or to purchase properties or services primarily for the purpose of assuring the owner of such indebtedness or obligation of the ability of any other Person to make payment of the indebtedness or obligation; or

(d) otherwise to assure the owner of such indebtedness or obligation against loss in respect thereof.

In any computation of the indebtedness or other liabilities of the obligor under any Guaranty, the indebtedness or other obligations that are the subject of such Guaranty shall be assumed to be direct obligations of such obligor.

"Hazardous Material" means any and all pollutants, toxic or hazardous wastes or any other substances that might pose a hazard to health or safety, the removal of which may be required or the generation, manufacture, refining, production, processing, treatment, storage, handling, transportation, transfer, use, disposal, release, discharge, spillage, seepage, or filtration of which is or shall be restricted, prohibited or penalized by any applicable law (including, without limitation, asbestos, urea formaldehyde foam insulation and polychlorinated biphenyls).

"holder" means, with respect to any Note, the Person in whose name such Note is registered in the register maintained by the Company pursuant to Section 13.1.

"Indebtedness" with respect to any Person means, at any time, without duplication,

(a) its liabilities for borrowed money and its redemption obligations in respect of mandatorily redeemable preferred stock;

(b) its liabilities for the deferred purchase price of property acquired by such Person (excluding accounts payable arising in the ordinary course of business but including all liabilities created or arising under any conditional sale or other title retention agreement with respect to any such property);

(c) all liabilities appearing on its balance sheet in accordance with GAAP in respect of Capitalized Leases;

(d) all liabilities for borrowed money secured by any Lien with respect to any property owned by such Person (whether or not it has assumed or otherwise become liable for such liabilities);

(e) all its liabilities in respect of letters of credit or instruments serving a similar function issued or accepted for its account by banks and other financial institutions (whether or not representing obligations for borrowed money);

(f) Swaps of such Person; and

(g) any Guaranty of such Person with respect to liabilities of a type described in any of clauses (a) through (f) hereof.

Indebtedness of any Person shall include all obligations of such Person of the character described in clauses (a) through (g) to the extent such Person remains legally liable in respect thereof notwithstanding that any such obligation is deemed to be extinguished under GAAP.

"Institutional Investor" means (a) any original purchaser of a Note, (b) any holder of a Note holding more than 5% of the aggregate principal amount of the Notes then outstanding, and (c) any bank, trust company, savings and loan association or other financial institution, any pension plan, any investment company, any insurance company, any broker or dealer, or any other similar financial institution or entity, regardless of legal form.

"Interest Expense" means with respect to any period for which the amount thereof is to be determined, an amount equal to interest expense on Indebtedness, including payments in the nature of interest under Capitalized Lease Obligations and the discount or implied interest component of Off-Balance Sheet Liabilities, as determined in accordance with GAAP. Interest Expense determined on a consolidated basis for the Company and its Restricted Subsidiaries will be referred to herein as "Consolidated Interest Expense."

"Investment" shall include any Investment, in cash or by the delivery of other property (except against receipt of the fair value thereof in cash or in the ordinary course of business), whether by acquisition of stock, securities or other Indebtedness, or by loan, advance, capital contribution, transfer of property or otherwise; provided, however, that (a) the acquisition of stock, securities or other Indebtedness of, or a loan, advance capital contribution or transfer of property to, a Restricted Subsidiary (or a corporation which by reason of such transaction will become a Restricted Subsidiary) by the Company or one of its Restricted Subsidiaries, or (b) the purchase, acquisition or ownership by the Company or a Restricted Subsidiary of (i) readily marketable securities issued by states or municipalities within the United States of America or agencies or subdivisions thereof rated "A" or better by any recognized rating agency, (ii) direct obligations of, or obligations unconditionally guaranteed by, the United States of America or any agency thereof, (iii) commercial paper maturing within not more than 270 days from the date of issuance thereof which is issued by any corporation organized and doing business under the laws

of the United States of America or any state thereof and which is rated "Prime 1" by Moody's Investors Service, Inc. or "A-1" by Standard and Poor's Corporation (or comparably rated by such organizations or any successors thereto if the rating system is changed or there are such successors), (iv) certificates of deposit issued by any commercial bank organized and doing business under the laws of the United States of America or any state thereof and having (x) capital, surplus and undivided profits aggregating more than \$50,000,000, and (y) outstanding commercial paper which, at the time of acquisition of such certificates of deposit by the Company or any Restricted Subsidiary is rated "Prime 1" by Moody's Investors Service, Inc. or "A-1" by Standard and Poor's Corporation (or comparably rated by such organizations or any successors thereto if the rating system is changed or there are any successors), and (v) trade accounts payable to the Company or a Restricted Subsidiary within six months from the date such liability arose, shall not be deemed an "Investment." In addition, Investments of the Company existing on the Effective Date and described on Schedule 10.5 hereto, shall not be deemed "Investments."

"Lien" means, with respect to any Person, any mortgage, lien, pledge, charge, security interest or other encumbrance, or any interest or title of any vendor, lessor, lender or other secured party to or of such Person under any conditional sale or other title retention agreement or Capital Lease, upon or with respect to any property or asset of such Person (including in the case of stock, stockholder agreements, voting trust agreements and all similar arrangements).

"Make-Whole Amount" is defined in Section 8.7.

"Material" means material in relation to the business, operations, affairs, financial condition, assets, properties, or prospects of the Company and its Subsidiaries taken as a whole.

"Material Adverse Effect" means a material adverse effect on (a) the business, operations, affairs, financial condition, assets or properties of the Company and its Subsidiaries taken as a whole, or (b) the ability of the Company to perform its obligations under this Agreement and the Notes, or (c) the validity or enforceability of this Agreement, the Notes or any Subsidiary Guaranty.

"Multiemployer Plan" means any Plan that is a "multiemployer plan" (as such term is defined in Section 4001(a)(3) of ERISA).

"Net Income" of any corporation for any fiscal period shall mean the net income (or the net deficit, if expenses and charges exceed revenues and other proper income credits) of such corporation for such period, determined in the following manner:

(a) the gross revenues and other proper income credits of such corporation shall be computed for such period in accordance with GAAP; provided that in any event there shall not be included in such gross revenues and income credits any write up in the book value of any asset resulting from the revaluation thereof; and

(b) from the amount of such gross revenues and other proper income credits for such period determined as provided in the preceding clause (a), there shall be

deducted an amount equal to the aggregate of all expenses and other proper income charges for such period, determined in accordance with GAAP but in any event deducting (without in any respect limiting the generality of the foregoing) the following items: (i) all interest charges; (ii) amortization of debt discount and expense and any other amortization of deferred charges properly subject to amortization; (iii) provision for all taxes whether in respect of property, income, excess profits or otherwise; (iv) provisions for all contingency and other reserves whether general or special; and (v) provision for depreciation, depletion, obsolescence and amortization of the properties of such corporation (including depreciation and amortization of leasehold improvements) in amounts not less than the aggregate amount actually deducted on its books and not less than the aggregate amount claimed (but adjusted for any disallowance) or to be claimed by such corporation for federal income tax purposes for such period; provided, however, that in lieu of accelerated depreciation permitted under the Code, the corporation may at its option provide for depreciation and amortization in amounts based on the normal rates customarily employed by the corporation for identical or similar types of property in the preparation of its audited financial statements, and in such event the corporation shall establish and shall maintain in accordance with GAAP an appropriate reserve in respect of any tax savings as a result of charging for tax purposes such accelerated depreciation or accelerated amortization;

provided that, in determining the amount to be included in clauses (a) and (b) above, (i) any federal tax adjustments for any period prior to January 1, 2002 shall not be a proper charge or credit to income for any period subsequent to that date, and any federal tax adjustment for any period subsequent to December 31, 2001 shall be included as a proper charge or credit to income for the year in which actually received or paid, except to the extent, if any, to which the amount of such latter adjustment is charged to a proper reserve for federal taxes set up out of income for any period subsequent to December 31, 2001; (ii) any adjustments for any period prior to January 1, 2002 resulting from any renegotiation or price redetermination in respect of any Government prime contract, or any subcontract under any Government prime contract, shall not be included as a proper charge or credit to income for any period subsequent to that date, and any such renegotiation or price redetermination adjustment for any period subsequent to December 31, 2001 shall be included as a proper charge or credit to income for the year in which actually received or paid, except to the extent, if any, to which the amount of such adjustment is charged to a proper reserve for renegotiation or price redetermination set up out of income for any period subsequent to December 31, 2001; (iii) any earnings of, and dividends payable to, such corporation in currencies which at the time are blocked against conversion into United States currency shall not be included as a proper charge or credit to income for any period subsequent to December 31, 2001; (iv) any undistributed earnings of, and dividends payable by, unconsolidated Subsidiaries or any other person (other than a Restricted Subsidiary) shall not be included as a proper charge or credit to income for any period subsequent to December 31, 2001; (v) any gains on the sale or other disposition of capital assets and taxes on such excluded gains shall not be included as a proper charge or credit to income for any period subsequent to December 31, 2001; (vi) net earnings and losses of any corporation (other than a Subsidiary) substantially all the assets of which have been acquired in any manner, realized by such other corporation prior to the date of acquisition shall not be included as a proper charge or credit to income for any period subsequent to December 31, 2001; (vii) net earnings or losses of any

corporation (other than a Restricted Subsidiary) with which the Company or a Restricted Subsidiary shall have consolidated or which shall have merged into or with the Company or a Restricted Subsidiary prior to the date of such consolidation or merger shall not be included as a proper charge or credit to income for any period subsequent to December 31, 2001; and (viii) any portion of the net earnings of any Restricted Subsidiary which for any reason is unavailable for the payment of dividends to the Company or any other Restricted Subsidiary shall not be included as a proper credit to income for any period subsequent to December 31, 2001. The term "capital assets" of any corporation as used herein shall include all fixed assets, both tangible (such as land, buildings, machinery and equipment) and intangible (such as patents, copyrights, trademarks, trade names, formulae and good will), and securities.

"Notes" is defined in Section 1.

"Off-Balance Sheet Liability" of a Person means (i) any repurchase obligation or liability of such Person or any of its Subsidiaries with respect to accounts or notes receivable sold by such Person or any of its Subsidiaries (calculated to include the unrecovered investment of purchasers or transferees of accounts or any other obligation of such Person or such transferor to purchasers/transferees of interests in accounts or notes receivable or the agent for such purchasers/transferees), (ii) any liability under any sale and leaseback transaction which is not a Capitalized Lease, (iii) any liability under any financing lease or Synthetic Lease or "tax ownership operating lease" transaction entered into by such Person, including any Synthetic Lease Obligations, or (iv) any obligation arising with respect to any other transaction which is the functional equivalent of or takes the place of borrowing but which does not constitute a liability on the balance sheets of such Person, but excluding from this clause (iv) Operating Leases.

"Officer's Certificate" means a certificate of a Senior Financial Officer or of any other officer of the Company whose responsibilities extend to the subject matter of such certificate.

"Operating Lease" of a Person means any lease of Property (other than a Capitalized Lease) by such Person as lessee which has an original term (including any required renewals and any renewals effective at the option of the lessor) of one year or more.

"PBGC" means the Pension Benefit Guaranty Corporation referred to and defined in ERISA or any successor thereto.

"Permitted Guaranties" means and includes each unsecured Guaranty by a Subsidiary of the Company's obligations under (a) the Revolving Credit Agreement and (b) the Company's then outstanding private placement note purchase agreements, provided that the Indebtedness of such Subsidiary under each such Guaranty qualifies as Specified Subsidiary Indebtedness.

"Person" means an individual, partnership, corporation, limited liability company, association, trust, unincorporated organization, or a government or agency or political subdivision thereof.

"Plan" means an "employee benefit plan" (as defined in Section 3(3) of ERISA) that is or, within the preceding five years, has been established or maintained, or to which contributions are or, within the preceding five years, have been made or required to be made, by the Company or any ERISA Affiliate or with respect to which the Company or any ERISA Affiliate may have any liability.

"property" or "properties" means, unless otherwise specifically limited, real or personal property of any kind, tangible or intangible, choate or inchoate.

"QPAM Exemption" means Prohibited Transaction Class Exemption 84-14 issued by the United States Department of Labor.

"Required Holders" means, at any time, the holders of at least 51% in principal amount of the Notes at the time outstanding (exclusive of Notes then owned by the Company or any of its Affiliates).

"Responsible Officer" means any Senior Financial Officer and any other officer of the Company with responsibility for the administration of the relevant portion of this Agreement.

"Restricted Subsidiary" means any Subsidiary of the Company which (a) is organized under the laws of any state of the United States of America or under the laws of Canada or any province thereof, (b) has substantially all of its assets located within, and operates substantially within, the United States of America or Canada, (c) at least 50% of the outstanding voting stock having ordinary voting power to elect a majority of the Board of Directors of such corporation (irrespective of whether or not at the time stock of any other class or classes shall have or might have voting power by reason of the happening of any contingency) is at the time directly or indirectly owned by the Company, by one or more of its Wholly-Owned Restricted Subsidiaries or by the Company and one or more of its Wholly-Owned Restricted Subsidiaries, and (d) which the Company designates as a Restricted Subsidiary, by notice to the holders of the Notes in the manner provided in Section 18; provided, however, that the Company may not designate any Unrestricted Subsidiary as a Restricted Subsidiary, or any Restricted Subsidiary as an Unrestricted Subsidiary, unless at the time of such designation, and after giving effect thereto, no Default or event which the passage of time or giving of notice, or both, would constitute an Event of Default would exist; and provided further that the Company may not subsequently change the designation of any Subsidiary from Restricted Subsidiary to Unrestricted Subsidiary, or from Unrestricted Subsidiary to Restricted Subsidiary, unless (w) the Company shall have given not less than 10 days' prior notice to the holders of the Notes that a Responsible Officer has made such a determination, (x) at the time of such designation and, on a pro forma basis, treating such designation as having occurred on the last day of the immediately preceding fiscal quarter, no Default or event which the passage of time or giving of notice, or both, would constitute an Event of Default would exist, (y) any designation of a Restricted Subsidiary to an Unrestricted Subsidiary is treated as a sale of assets subject to the provisions of Section 10.8 and immediately after such designation and after giving effect thereto, no Default or Event of Default shall have occurred and be continuing under Section 10.8 and (z)(i) a Subsidiary initially designated a Restricted Subsidiary shall not subsequently be designated an Unrestricted Subsidiary more than once or subsequently be designated a Restricted Subsidiary more than once

and (ii) a Subsidiary initially designated an Unrestricted Subsidiary shall not subsequently be designated a Restricted Subsidiary more than once or subsequently be designated an Unrestricted Subsidiary more than once. For all purposes of this Agreement, the Company shall, on Schedule 5.4, designate each Subsidiary which exists as of the Effective Date as an Unrestricted Subsidiary.

"Revolving Credit Agreement" means that certain Revolving Credit Agreement dated as of May 3, 2002 among the Company, Bank One, N.A., as Agent and the other financial institutions named therein, such term to include any credit facility or other instrument evidencing borrowed money replacing all or part of such Revolving Credit Agreement.

"Securities Act" means the Securities Act of 1933, as amended from time to time.

"Senior Financial Officer" means the chief financial officer, principal accounting officer, treasurer or comptroller of the Company.

"Series A Notes" is defined in Section 1.

"Series B Notes" is defined in Section 1.

"Specified Subsidiary Indebtedness" means Indebtedness of Subsidiaries consisting of unsecured Guaranties of the Company's obligations under and pursuant to (a) the Revolving Credit Agreement and (b) each of the Company's then outstanding private placement note purchase agreements and notes, provided that, within the time period required by Section 9.8 of this Agreement, the Company shall have executed and delivered, or shall have caused to be executed and delivered, to the holders of the Notes (i) an executed counterpart of a Subsidiary Guaranty or joinder agreement in respect of an existing Subsidiary Guaranty, from each of the Subsidiaries guaranteeing the Company's obligations under such Revolving Credit Agreement, and (ii) an executed counterpart of an intercreditor agreement among the holders of the Notes, each Person which is a party to the Revolving Credit Agreement as a lender or creditor (or an authorized agent on their behalf), each holder of the Company's other private placement notes then outstanding, the Company and each such guaranteeing Subsidiary, all as and to the extent required by Section 9.8 of this Agreement.

"Subsidiary" means, as to any Person, any corporation, association or other business entity in which such Person or one or more of its Subsidiaries or such Person and one or more of its Subsidiaries owns sufficient equity or voting interests to enable it or them (as a group) ordinarily, in the absence of contingencies, to elect a majority of the directors (or Persons performing similar functions) of such entity, and any partnership or joint venture if more than a 50% interest in the profits or capital thereof is owned by such Person or one or more of its Subsidiaries or such Person and one or more of its Subsidiaries (unless such partnership can and does ordinarily take major business actions without the prior approval of such Person or one or more of its Subsidiaries). Unless the context otherwise clearly requires, any reference to a "Subsidiary" is a reference to a Subsidiary of the Company.

"Subsidiary Guarantors" is defined in Section 9.8.

"Subsidiary Guaranty" means any Guaranty of any Subsidiary with respect to the payment of the Notes and all other sums due and owing by the Company under this Agreement, which Guaranty shall be in form and substance reasonably satisfactory to the Required Holders.

"Substantially-Owned Restricted Subsidiary" means any Restricted Subsidiary 90% or more of the equity interests (other than directors' qualifying shares) and voting interests at the time are owned directly or indirectly by the Company, or by one or more of its Substantially-Owned Restricted Subsidiaries or by the Company and one or more of its Substantially-Owned Restricted Subsidiaries.

"substantial part" is defined in Section 10.8.

"Swaps" means, with respect to any Person, payment obligations with respect to interest rate swaps, currency swaps and similar obligations obligating such Person to make payments, whether periodically or upon the happening of a contingency. For the purposes of this Agreement, the amount of the obligation under any Swap shall be the amount determined in respect thereof as of the end of the then most recently ended fiscal quarter of such Person, based on the assumption that such Swap had terminated at the end of such fiscal quarter, and in making such determination, if any agreement relating to such Swap provides for the netting of amounts payable by and to such Person thereunder or if any such agreement provides for the simultaneous payment of amounts by and to such Person, then in each such case, the amount of such obligation shall be the net amount so determined.

"Synthetic Lease" means each so-called synthetic, off-balance sheet or tax retention lease or other arrangement, however described, under which (a) the obligor accounts for its interest in the property covered thereby under GAAP as lessee of a lease which is not a capital lease and accounts for its interest in the property covered thereby for Federal income tax purposes as the owner or (b) the obligations of the obligor do not appear on the balance sheet of such obligor but which, upon the insolvency or bankruptcy of such obligor, would be characterized as the indebtedness of such obligor (without regard to accounting treatment).

"Synthetic Lease Obligation" means the monetary obligation of a Person under a Synthetic Lease.

"Tangible Net Worth" of any corporation shall mean the sum of the amounts set forth on the balance sheet of such corporation, prepared in accordance with GAAP and as of any date selected by such corporation not more than 45 days prior to the taking of any action for the purpose of which the determination is being made, which appears as (a) the par or stated value of all outstanding stock, (b) capital, paid-in and earned surplus and (c) long term deferred tax liabilities, less the sum of (i) any surplus resulting from any write-up of assets, (ii) good will, including any amounts (however designated on such balance sheet) representing the cost of acquisitions of Restricted Subsidiaries in excess of underlying tangible assets, unless an appraisal of such assets made by a reputable firm of appraisers at the time of acquisition shall indicate sufficient value to cover such excess, (iii) any amounts by which Investments in persons appearing on the asset side of such balance sheet exceed the lesser of cost or the proportionate share of such corporation in the book value of the assets of such persons, provided that such book

value shall be reduced by any amounts representing restrictions on the payment of dividends by such persons pursuant to any law, charter provision, mortgage or indenture or, in lieu of the foregoing, any Investment may be carried at its market value if the securities representing such Investment are publicly traded, (iv) patents, trademarks, copyrights, leasehold improvements not recoverable at the expiration of a lease and deferred charges (including, but not limited to, unamortized debt discount and expense, organization expenses, experimental and development expenses, but excluding prepaid expenses), (v) any amounts at which shares of capital stock of such corporation appear on the asset side of such balance sheet, (vi) any amount of Indebtedness not included on the liability side of such balance sheet and (vii) other comprehensive income or expense (as defined by GAAP), to the extent included in subclause (a), (b) or (c) above.

"10-K" is defined in Section 5.3.

"10-Qs" is defined in Section 5.3.

"Unrestricted Subsidiary" means any Subsidiary other than a Subsidiary which has been designated a Restricted Subsidiary. Any Subsidiary which is not expressly designated a Restricted Subsidiary or an Unrestricted Subsidiary shall be deemed designated an Unrestricted Subsidiary.

"Wholly-Owned Restricted Subsidiary" means any Restricted Subsidiary all of the equity interests (other than directors' qualifying shares) and voting interests at the time is owned directly or indirectly by the Company, or by one or more of its Wholly-Owned Restricted Subsidiaries or by the Company and one or more of its Wholly-Owned Restricted Subsidiaries.

SCHEDULE 4.9
CHANGES IN CORPORATE STRUCTURE

None.

Schedule 4.9
(to Amended and Restated Note Agreement)

SCHEDULE 5.4
SUBSIDIARIES OF THE COMPANY AND OWNERSHIP OF SUBSIDIARY STOCK

Subsidiaries of the Company

Corporate Name	Jurisdiction of Incorporation or Formation	Percentage of Shares Held or Beneficially Owned	Restricted Subsidiary (Y/N)
Stepan Europe S.A.	France	100%	N
Stepan Canada, Inc.	Canada	100%	N
Stepan Mexico, S.A. de C.V.	Mexico	100%	N
Stepan Quimica Ltda.	Brazil	100%	N
Stepan Colombiana de Quimicos	Colombia	100%	N
Stepan UK Limited	England and Wales	100%(by Stepan Europe S.A.)	N
Stepan Deutschland GmbH	Germany	100% (by Stepan Europe S.A.)	N

Affiliates of the Company

Corporate Name	Jurisdiction of Incorporation or Formation	Percentage of Shares Held or Beneficially Owned	Restricted Subsidiary (Y/N)
Stepan Philippines S.A. (Joint Venture)	Philippines	50%	N

Directors and Senior Officers of the Company

Name	Title/Office
F. Quinn Stepan	Chairman and Chief Executive Officer
F. Quinn Stepan, Jr.	President and Chief Operating Officer and Director
John V. Venegoni	Vice President and General Manager - Surfactants

Schedule 5.4
(to Amended and Restated Note Agreement)

Directors and Senior Officers of the Company (cont'd)

Robert J. Wood	Vice President and General Manager - Polymers
F. Samuel Eberts III	Vice President, General Counsel and Secretary
Anthony J. Zoglio	Vice President - Manufacturing and Engineering
James E. Hurlbutt	Vice President and Corporate Controller
Kathleen M. Owens	Senior Attorney and Assistant Corporate Secretary
James A. Hartlage	Director
Thomas F. Grojean	Director
Paul H. Stepan	Director
Robert D. Cadieux	Director
Robert G. Potter	Director

Liens on Capital Stock of Subsidiaries of the Company

As guarantee of payment and reimbursement of all sums due in respect to Stepan Europe S.A. term loan, the stock of Stepan UK and Stepan Deutschland were pledged as security to Credit Lyonnais and Lyonnaise de Banque, both of Lyon, France.

In addition, Stepan Europe S.A. also assigned a EUR 3 million mortgage on the land and fixed assets located at Voreppe (Isere, France).

Agreements Containing Restrictions on Ability of Subsidiaries
to Pay Dividends

Stepan Europe S.A. term loan prohibits dividend payments.

Agreements With Requirements Affecting Parent Company

Stepan Europe S.A. bank term loan requires inter-company loans from Stepan Company, as of any year-end, to be equal in amount to the balance then outstanding on the bank term loan.

Schedule 5.4 (cont'd)
(to Amended and Restated Note Agreement)

SCHEDULE 5.5
FINANCIAL STATEMENTS

December 31, 2000 Form 10-K and Financial Statements (audited):

Consolidated Balance Sheets as of December 31, 2000 and 1999

Consolidated Statements of Income - December 31, 2000, 1999 and 1998

Consolidated Statements of Cash Flows - December 31, 2000, 1999 and 1998

December 31, 2001 Form 10-K and Financial Statements (audited):

Consolidated Balance Sheets as of December 31, 2001 and 2000

Consolidated Statements of Income - December 31, 2001, 2000 and 1999

Consolidated Statements of Cash Flows - December 31, 2001, 2000 and 1999

Interim (unaudited) quarterly Financial Statements - 2002

March 31, 2002 Form 10-Q

June 30, 2002 Form 10-Q

Schedule 5.5
(to Amended and Restated Note Agreement)

SCHEDULE 5.8
CERTAIN LITIGATION

None.

Schedule 5.8
(to Amended and Restated Note Agreement)

SCHEDULE 5.10
PRECAUTIONARY UCC FILINGS

SECURED PARTY	DEBTOR	FILING DATE/FILE #	FILING OFFICE	DOCUMENT TYPE -- PROPERTY COVERED
Forsythe/McArthur Associates, Inc., Lessor	Stepan Company	2/25/93, 3089608	Illinois SOS	UCC-1: Leased computer, data processing, telecommunications and other equipment including attachments, accessories, replacements, products and proceeds relating thereto
Forsythe/McArthur Associates, Inc.	Stepan Company	8/28/97, 3733310	Illinois SOS	UCC-3: Continues 3089608
Pitney Bowes Credit Corporation	Stepan Company	10/27/97, 3755618	Illinois SOS	UCC-1: All equipment of whatever nature manufactured, sold or distributed by Pitney Bowes Credit Inc., Monarch Marketing Systems Inc., Pitney Bowes Credit Corp., Dictaphone Corp. and subject to lease between debtor and secured party, including proceeds, additions and replacements relating thereto
Minolta Business Systems, Inc.	Stepan Company	11/21/97, 3766297	Illinois SOS	UCC-1: Leased Minolta Copier and Controller
Minolta Business Systems, Inc.	Stepan Company	2/1/99, 3981526	Illinois SOS	UCC-1: Leased Minolta Controller
IBM Credit Corporation, Lessor	Stepan Company	3/22/00, 4184547	Illinois SOS	UCC-1: Leased computer information processing and other peripheral equipment and goods wherever located, including additions, accessions, upgrades and replacements
Amcore Consumer Finance, Inc., Assignee	Stepan Company	12/12/97, 1806897	New Jersey SOS	UCC-1: 4 leased Stainless Steel 350 Gal Tanks, includes proceeds

Schedule 5.10
(to Amended and Restated Note Agreement)

SCHEDULE 5.11
PATENTS, ETC.

None.

Schedule 5.11
(to Amended and Restated Note Agreement)

SCHEDULE 5.14
USE OF PROCEEDS

Loan proceeds will be used to repay existing debt as well as for capital expenditures, working capital, acquisitions, dividends and other corporate purposes.

Schedule 5.14
(to Amended and Restated Note Agreement)

SCHEDULE 5.15
EXISTING INDEBTEDNESS

Indebtedness of the Company and its Subsidiaries outstanding on
September 30, 2002, excluding intercompany loans.

Obligor	Creditor	Description of Indebtedness (including interest rate)	Collateral (if any)	Maturity	Outstanding Principal Amount (\$000's)
Stepan Company	The Northwestern Mutual Life Insurance Company	9.70% Notes	None	Original Stated:2006 Current: 2003	\$ 667
Stepan Company	The Northwestern Mutual Life Insurance Company	7.22% Notes	None	Original Stated:2008 Current: 2007	\$ 5,000
Stepan Company	The Northwestern Mutual Life Insurance Company	7.69% Notes	None	2005	\$ 2,250
Stepan Company	The Northwestern Mutual Life Insurance Company	7.77% Notes	None	2010	\$ 8,182
Stepan Company	The Northwestern Mutual Life Insurance Company	6.59% Notes	None	2013	\$ 20,000
Stepan Company	The Northwestern Mutual Life Insurance Company	6.86% Notes	None	2015	\$ 20,000
Stepan Company	The Northwestern Mutual Life Insurance Company for its Group Annuity Separate Account	6.86% Notes	None	2015	\$ 1,000

Schedule 5.15
(to Amended and Restated Note Purchase Agreement)

Stepan Company	Aid Association for Lutherans	7.22% Notes	None	Original Stated: 2008 Current: 2007	\$	5,000
Stepan Company	Aid Association for Lutherans	7.69% Notes	None	2005	\$	2,250
Stepan Company	Aid Association for Lutherans	7.77% Notes	None	2010	\$	8,182
Stepan Company	Thrivent Financial for Lutherans	6.86% Notes	None	2015	\$	3,000
Stepan Company	The Mutual Life Insurance Company of New York	7.22% Notes	None	Original Stated: 2008 Current: 2007	\$	5,000
Stepan Company	The Mutual Life Insurance Company of New York	7.69% Notes	None	2005	\$	1,500
Stepan Company	The Mutual Life Insurance Company of New York	7.77% Notes	None	2010	\$	5,454
Stepan Company	MONY Life Insurance Company	6.86% Notes	None	2015	\$	3,000
Stepan Company	Connecticut General Life Insurance Company	6.59% Notes	None	2013	\$	10,000
Stepan Company	Connecticut General Life Insurance Company	6.86% Notes	None	2015	\$	3,000
Stepan Europe S.A.	Credit Lyonnais (50%) Lyonnaisse de Banque (50%)	Term Loan	Shares of Stepan UK and Stepan Deutschland, EUR 3MM mortgage on the land & fixed assets located at Voreppe (Isere, France).	2008	EUR	12,904

Schedule 5.15(cont'd)
(to Amended and Restated Note Agreement)

Stepan Europe S.A.	Water Agency	Government Subsidy	None	2007	EUR	103
Stepan Deutschland GmbH	SEB AG	5.50% term loan	None	2006	EUR	1,125

Agreements providing for future Liens on properties of the Company and its Subsidiaries:

None.

Schedule 5.15(cont'd)
(to Amended and Restated Note Agreement)

SCHEDULE 5.18
ENVIRONMENTAL MATTERS

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 (CERCLA) 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 USEPA to the company for property currently owned by the company, the company completed a Remedial Investigation Feasibility Study (RI/FS) in 1994. The company has also submitted additional information regarding the remediation, most recently in February 2002. Discussions between USEPA and the company are continuing. The company is awaiting the issuance of a Record of Decision (ROD) from USEPA relating to the currently owned and formerly owned company property and the proposed remediation. The final ROD will be issued sometime after the public comment period.

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 (DOE) took title to radiological contaminated materials and was to remediate, at its expense, all radiological waste on the company's property in Maywood, New Jersey. The Maywood property (and portions of the surrounding area) were remediated by the DOE 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 a USACE Report to Congress dated January 1998 in which the USACE 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. Subsequent to the issuance of that report, the USACE advised the company that it had requested legal advice from the Department of Justice as to the impact of the Agreement.

By letter dated July 28, 2000, the Department of Justice advised the company that the USACE and USEPA had referred to the Justice Department claims against the company for response costs incurred or to be incurred by the USACE, USEPA and the DOE in connection with the Maywood site and the Justice Department stated that the United States is entitled to recovery of its response costs from the company under CERCLA. The letter referred to both radiological and non-radiological hazardous waste at the Maywood site and stated that the United States has incurred unreimbursed response costs to date of \$138 million. Costs associated with radiological waste at the Maywood site, which the company believes represent all but a small portion of the amount referred to in the Justice Department letter, could be expected to aggregate substantially in excess of that amount. In the letter, the Justice Department invited the company to discuss settlement of the matter in order to avoid the need for litigation. The company believes that its liability, if any, for such costs has been resolved by the aforesaid Agreement. Despite the fact that the company continues to believe that it has no liability to the United States for such costs, discussions with the Justice Department are currently ongoing to attempt to resolve this matter.

Schedule 5.18
(to Amended and Restated Note Agreement)

The company believes it has adequate reserves for claims associated with the Maywood site. However, depending on the results of the ongoing discussions regarding the Maywood site, the final cost of the remediation could differ from the current estimates.

As reported previously, the company has been named as a potentially responsible party (PRP) in the case USEPA v. Jerome Lightman (92 CV 4710 D. N. J.) 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 was completed in March 2000. The company is awaiting a decision from the court. If the company is found liable at either site, a second trial as to the company's allocated share of clean-up costs at these sites will likely be held in 2003. The company believes it has adequate defenses to the issue of liability. In the event of an unfavorable outcome related to the issue of 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.

Regarding the D'Imperio Superfund Site, USEPA has indicated it will seek penalty claims against the company based on the company's alleged noncompliance with the modified Unilateral Administrative Order. The company is currently negotiating with USEPA to settle its proposed penalty against the company but does not believe that a settlement, if any, will have a material impact on the financial condition of the company. In addition, the company also received notice from the New Jersey Department of Environmental Protection (NJDEP) dated March 21, 2001, that NJDEP has indicated it will pursue cost recovery against the alleged responsible parties, including the company. The NJDEP's claims include costs related to remediation of the D'Imperio Superfund Site in the amount of \$434,405.53 and alleged natural resource damages in the amount of \$529,584.00 (as of November 3, 2000). The NJDEP settled such claims against the alleged responsible parties, resulting in the company paying its portion of \$83,061.00 in July 2002. This payment is subject to reallocation after the allocation phase of the above-identified trial, if any. The payment did not have a material impact on the financial condition of the company.

As reported previously, the company received a Section 104(e) Request for Information from USEPA dated March 21, 2000, regarding the Lightman Drum Company Site located in Winslow Township, New Jersey. The company responded to this request on May 18, 2000. In addition, the company received a Notice of Potential Liability and Request to Perform RI/FS dated June 30, 2000, from USEPA. The company has decided that it will participate in the performance of the RI/FS. However, based on the current information known regarding this site, the company is unable to predict what its liability, if any, will be for this site.

Schedule 5.18(cont'd)
(to Amended and Restated Note Agreement)

SCHEDULE 10.5
EXISTING INVESTMENTS AS OF DECEMBER 31, 2001

Investment In	Amount of Investment* (\$000's)
-----	-----
Stepan Europe S.A.	\$ 26,762
Stepan Philippines S.A.	\$ 8,814
Stepan Mexico S.A. de C.V.	\$ 5,754
Stepan Colombiana de Quimicos	\$ 4,311
Stepan Canada, Inc.	\$ 880
Stepan Quimica Ltda.	\$ 221

* Investments are shown at cost at the time of investment, without allowance for any subsequent write-offs, appreciation or depreciation, less any amounts repaid or recovered on account of capital or principal.

Schedule 10.5
(to Amended and Restated Note Agreement)

STEPAN COMPANY

7.69% Amended and Restated Senior Note, Series A, due June 30, 2005

No. _____
\$ _____

[Date]
PPN 858586 F * 6

For Value Received, the undersigned, Stepan Company (herein called the "Company"), a corporation organized and existing under the laws of the State of Delaware, hereby promises to pay to _____, or registered assigns, the principal sum of _____ Dollars on June 30, 2005, with interest (computed on the basis of a 360-day year of twelve 30-day months) (a) on the unpaid balance thereof at the rate of 7.69% per annum from the date hereof, payable semiannually, on the thirtieth day of each June and December in each year, commencing with the June 30 or December 30 next succeeding the date hereof, until the principal hereof shall have become due and payable, and (b) to the extent permitted by law on any overdue payment (including any overdue prepayment) of principal, any overdue payment of interest and any overdue payment of any Make-Whole Amount (as defined in the Amended and Restated Note Agreement referred to below), payable semiannually as aforesaid (or, at the option of the registered holder hereof, on demand), at a rate per annum from time to time equal to the greater of (i) 8.69% or (ii) the rate of interest publicly announced by Bank One, N.A. from time to time in Chicago, Illinois as its "base" or "prime" rate.

Payments of principal of, interest on and any Make-Whole Amount with respect to this Note are to be made in lawful money of the United States of America at the Company's office in Northfield, Illinois or at such other place as the Company shall have designated by written notice to the holder of this Note as provided in the Amended and Restated Note Agreement referred to below.

This Note is one of the Series A Senior Notes (herein called the "Notes") issued pursuant to the Amended and Restated Note Agreement, dated as of December 1, 2002 (as from time to time amended, the "Amended and Restated Note Agreement"), among the Company and the respective Noteholders named therein and is entitled to the benefits thereof. Each holder of this Note will be deemed, by its acceptance hereof, (i) to have agreed to the confidentiality provisions set forth in Section 20 of the Amended and Restated Note Agreement and (ii) to have made the representation set forth in Section 6.2 of the Amended and Restated Note Agreement, provided that such holder may (in reliance upon information provided by the Company, which shall not be unreasonably withheld) make a representation to the effect that the purchase by such holder of any Note will not constitute a non-exempt prohibited transaction under Section 406(a) of ERISA.

This Note is a registered Note and, as provided in the Amended and Restated Note Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for a like principal amount will be

Exhibit 1(a)
(to Amended and Restated Note Agreement)

issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company will not be affected by any notice to the contrary.

The Company will make required prepayments of principal on the dates and in the amounts specified in the Amended and Restated Note Agreement. This Note is also subject to optional prepayment, in whole or from time to time in part, at the times and on the terms specified in the Amended and Restated Note Agreement, but not otherwise.

If an Event of Default, as defined in the Amended and Restated Note Agreement, occurs and is continuing, the principal of this Note may be declared or otherwise become due and payable in the manner, at the price (including any applicable Make-Whole Amount) and with the effect provided in the Amended and Restated Note Agreement.

This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of Illinois excluding choice-of-law principles of the law of such State that would require the application of the laws of a jurisdiction other than such State.

Stepan Company

By _____
Name:
Title:

STEPAN COMPANY

7.77% Amended and Restated Senior Note, Series B, due June 30, 2010

No. _____
\$ _____

[Date]
PPN 858586 F @ 4

For Value Received, the undersigned, Stepan Company (herein called the "Company"), a corporation organized and existing under the laws of the State of Delaware, hereby promises to pay to _____, or registered assigns, the principal sum of _____ Dollars on June 30, 2010, with interest (computed on the basis of a 360-day year of twelve 30-day months) (a) on the unpaid balance thereof at the rate of 7.77% per annum from the date hereof, payable semiannually, on the thirtieth day of each June and December in each year, commencing with the June 30 or December 30 next succeeding the date hereof, until the principal hereof shall have become due and payable, and (b) to the extent permitted by law on any overdue payment (including any overdue prepayment) of principal, any overdue payment of interest and any overdue payment of any Make-Whole Amount (as defined in the Amended and Restated Note Agreement referred to below), payable semiannually as aforesaid (or, at the option of the registered holder hereof, on demand), at a rate per annum from time to time equal to the greater of (i) 8.77% or (ii) the rate of interest publicly announced by Bank One, N.A. from time to time in Chicago, Illinois as its "base" or "prime" rate.

Payments of principal of, interest on and any Make-Whole Amount with respect to this Note are to be made in lawful money of the United States of America at the Company's office in Northfield, Illinois or at such other place as the Company shall have designated by written notice to the holder of this Note as provided in the Amended and Restated Note Agreement referred to below.

This Note is one of the Series B Senior Notes (herein called the "Notes") issued pursuant to the Amended and Restated Note Agreement, dated as of December __, 2002 (as from time to time amended, the "Amended and Restated Note Agreement"), among the Company and the respective Noteholders named therein and is entitled to the benefits thereof. Each holder of this Note will be deemed, by its acceptance hereof, (i) to have agreed to the confidentiality provisions set forth in Section 20 of the Amended and Restated Note Agreement and (ii) to have made the representation set forth in Section 6.2 of the Amended and Restated Note Agreement, provided that such holder may (in reliance upon information provided by the Company, which shall not be unreasonably withheld) make a representation to the effect that the purchase by such holder of any Note will not constitute a non-exempt prohibited transaction under Section 406(a) of ERISA.

This Note is a registered Note and, as provided in the Amended and Restated Note Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for a like principal amount will be

Exhibit 1(b)
(to Amended and Restated Note Agreement)

issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company will not be affected by any notice to the contrary.

The Company will make required prepayments of principal on the dates and in the amounts specified in the Amended and Restated Note Agreement. This Note is also subject to optional prepayment, in whole or from time to time in part, at the times and on the terms specified in the Amended and Restated Note Agreement, but not otherwise.

If an Event of Default, as defined in the Amended and Restated Note Agreement, occurs and is continuing, the principal of this Note may be declared or otherwise become due and payable in the manner, at the price (including any applicable Make-Whole Amount) and with the effect provided in the Amended and Restated Note Agreement.

This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of Illinois excluding choice-of-law principles of the law of such State that would require the application of the laws of a jurisdiction other than such State.

Stepan Company

By _____
Name:
Title:

DESCRIPTION OF OPINION OF COUNSEL
TO THE COMPANY

The legal opinion of F. Samuel Eberts III, General Counsel of the Company, which is called for by Section 4.4(a) of the Amended and Restated Note Agreement, shall be dated the Effective Date and addressed to the Noteholders, shall be satisfactory in scope and form to the Noteholders and shall be to the effect that:

1. The Company is a corporation, duly incorporated, validly existing and in good standing under the laws of the State of Delaware, has the corporate power and the corporate authority to execute and perform the Amended and Restated Note Agreement and to issue the Notes and has the full corporate power and the corporate authority to conduct the activities in which it is now engaged and is duly licensed or qualified and is in good standing as a foreign corporation in each jurisdiction in which the character of the properties owned or leased by it or the nature of the business transacted by it makes such licensing or qualification necessary.

2. The Amended and Restated Note Agreement has been duly authorized by all necessary corporate action on the part of the Company, has been duly executed and delivered by the Company and constitutes the legal, valid and binding contract of the Company enforceable in accordance with its terms, subject to bankruptcy, insolvency, fraudulent conveyance and similar laws affecting creditors' rights generally, and general principles of equity (regardless of whether the application of such principles is considered in a proceeding in equity or at law).

3. The Notes have been duly authorized by all necessary corporate action on the part of the Company, have been duly executed and delivered by the Company and constitute the legal, valid and binding obligations of the Company enforceable in accordance with their terms, subject to bankruptcy, insolvency, fraudulent conveyance and similar laws affecting creditors' rights generally, and general principles of equity (regardless of whether the application of such principles is considered in a proceeding in equity or at law).

4. No order, permission, consent or approval of any federal or state commission, board or regulatory body is required as a condition to the lawful execution and delivery of the Amended and Restated Note Agreement or the Notes.

5. The issuance of the Notes and the execution, delivery and performance by the Company of the Amended and Restated Note Agreement do not conflict with or result in any breach of any of the provisions of or constitute a default under or result in the creation or imposition of any Lien upon any of the property of the Company pursuant to the provisions of the Certificate of Incorporation or By-laws of the Company, any law or any agreement or other instrument known to such counsel to which the Company is a party or by which the Company may be bound.

Exhibit - 4.4(a)

6. The issuance and delivery of the Notes under the circumstances contemplated by the Amended and Restated Note Agreement do not, under existing law, require the registration of the Notes under the Securities Act of 1933, as amended, or the qualification of an indenture under the Trust Indenture Act of 1939, as amended.

7. Except as set forth in the 10-K or in Schedule 5.8, there are no actions, suits or proceedings pending or, to the best knowledge and belief of such counsel, threatened against or affecting the Company, at law or in equity or before or by any federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, an adverse determination with respect to which may result in any material adverse change in the business, properties, assets or condition, financial or otherwise, of the Company.

The opinion of F. Samuel Eberts III shall cover such other matters relating to the amendment and restatement of the Existing Agreements and the exchange of the Existing Notes as the Noteholders may reasonably request. With respect to matters of fact on which such opinion is based, such counsel shall be entitled to rely on appropriate certificates of public officials and officers of the Company.

E-4.4(a)-2

DESCRIPTION OF OPINION OF SPECIAL COUNSEL
TO THE NOTEHOLDERS

The legal opinion of Chapman and Cutler, special counsel to the Noteholders, called for by Section 4.4(b) of the Amended and Restated Note Agreement, shall be dated the Effective Date and addressed to the Noteholders, shall be satisfactory in form and substance to the Noteholders and shall be to the effect that:

1. The Company is a corporation, validly existing and in good standing under the laws of the State of Delaware and has the corporate power and the corporate authority to execute and deliver the Amended and Restated Note Agreement and to issue the Notes.

2. The Amended and Restated Note Agreement has been duly authorized by all necessary corporate action on the part of the Company, has been duly executed and delivered by the Company and constitutes the legal, valid and binding contract of the Company enforceable in accordance with its terms, subject to bankruptcy, insolvency, fraudulent conveyance and similar laws affecting creditors' rights generally, and general principles of equity (regardless of whether the application of such principles is considered in a proceeding in equity or at law).

3. The Notes have been duly authorized by all necessary corporate action on the part of the Company, and the Notes being delivered on the date hereof have been duly executed and delivered by the Company and constitute the legal, valid and binding obligations of the Company enforceable in accordance with their terms, subject to bankruptcy, insolvency, fraudulent conveyance and similar laws affecting creditors' rights generally, and general principles of equity (regardless of whether the application of such principles is considered in a proceeding in equity or at law).

4. The issuance and delivery of the Notes under the circumstances contemplated by the Amended and Restated Note Agreement do not, under existing law, require the registration of the Notes under the Securities Act of 1933, as amended, or the qualification of an indenture under the Trust Indenture Act of 1939, as amended.

The opinion of Chapman and Cutler shall also state that the opinions of F. Samuel Eberts III is satisfactory in scope and form to Chapman and Cutler and that, in their opinion, the Noteholders are justified in relying thereon.

In rendering the opinion set forth in paragraph 1 above, Chapman and Cutler may rely solely upon an examination of the Certificate of Incorporation certified by, and a certificate of good standing of the Company from, the Secretary of State of the State of Delaware, the By-laws of the Company and the General Corporation Law of the State of Delaware. The opinion of Chapman and Cutler is limited to the laws of the State of Illinois, the General Corporation Law of the State of Delaware and the Federal laws of the United States.

With respect to matters of fact upon which such opinion is based, Chapman and Cutler may rely on appropriate certificates of public officials and officers of the Company and upon

Exhibit 4.4(b)

representations of the Company and the Noteholders delivered in connection with the issuance of the Notes.

E-4.4(b)-2

=====

Stepan Company

Amended and Restated Note Agreement

Dated as of December 1, 2002

Re: 6.59% Amended and Restated Senior Notes, due October 1, 2013

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(Not a part of the Agreement)

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STEPAN COMPANY
EDENS AND WINNETKA AVENUE
NORTHFIELD, ILLINOIS 60093

6.59% Amended and Restated Senior Notes, due October 1, 2013

Dated as of
December 1, 2002

To the Persons Listed in
The Attached Schedule A:

Ladies and Gentlemen:

Stepan Company, a Delaware corporation (the "Company"), agrees with each Noteholder listed in the attached Schedule A as follows:

Section 1. Background.

Reference is made to the separate Loan Agreements, each dated as of October 1, 1998, between the Company and, respectively, each purchaser listed in Schedule I thereto (the "Existing Agreements"), under and pursuant to which the Company issued its 6.59% Promissory Notes, due October 1, 2013 in the aggregate principal amount of \$30,000,000, of which \$30,000,000 in aggregate principal amount are presently outstanding (the "Existing Notes"). The Company now desires to amend and restate the Existing Agreements and the Existing Notes in their entirety. In order to effectuate and reflect the foregoing in the most expeditious manner, to facilitate dealings with respect to the Existing Agreements and the Existing Notes and to promote clarity and convenience, the parties hereto have agreed to amend and restate each of the Existing Agreements and the Existing Notes.

Section 2. Amendment and Restatement of Existing Agreements and Existing Notes.

Section 2.1. Amendment and Restatement of Existing Agreements. Effective the Effective Date (as hereinafter defined), the Company, by its execution of this Agreement, hereby agrees and consents to the amendment and restatement in their entirety of all of the Existing Agreements by and into this Agreement.

Section 2.2. Amendment and Restatement of Existing Notes. The Company, by its execution of this Agreement, hereby agrees and consents to the amendment and restatement in their entirety of the Existing Notes to be in the form of Exhibit 1 hereto. The Existing Notes, as so amended and restated, shall be hereinafter referred to, individually, as a "Note" and,

collectively, as the "Notes," and shall include each Note delivered pursuant to any provision of this Agreement and each Note delivered in substitution or exchange for any such Note pursuant to any such provision. The Company has duly authorized the execution and delivery to each Noteholder of the Notes, which Notes shall (i) be substituted in the place of the Existing Notes, (ii) be dated and bear interest from the date of the last full payment of interest on the Existing Notes, (iii) have the terms herein and therein provided, and (iv) be substantially in the form set out in Exhibit 1, with such changes therefrom, if any, as may be approved by the Noteholders and the Company.

Section 2.3. Agreement and Consent of the Noteholders. The Noteholders are, collectively, the holders of one hundred percent (100%) in aggregate principal amount of the Existing Notes. Subject to the satisfaction of the conditions precedent set forth in Section 4, the Noteholders, by their execution of this Agreement, hereby agree and consent to: (a) the amendment and restatement in their entirety of all of the Existing Agreements by and into this Agreement and (b) the amendment and restatement in their entirety of all of the Existing Notes by the exchange for an equal number of Notes in the form of Exhibit 1 hereto and in an equal outstanding principal amount therefor.

Section 2.4. Defined Terms, Etc. Certain capitalized terms used in this Agreement are defined in Schedule B; references to a "Schedule" or an "Exhibit" are, unless otherwise specified, to a Schedule or an Exhibit attached to this Agreement; and references to a "Section" are, unless otherwise specified, to a Section of this Agreement.

Section 2.5. Several Obligations. The obligations of each Noteholder hereunder are several and not joint obligations, and no Noteholder shall have any obligation or liability to any Person for the performance or nonperformance by any other Noteholder hereunder.

Section 2.6. Effect of Amendment and Restatement. Each of the Noteholders and the Company agree that (a) the amendment and restatement of the Existing Notes and the exchange of the Existing Notes for the Notes hereunder shall not constitute a novation or a prepayment of the Existing Notes and (b) no Make-Whole Amount or other premium is payable as a result of the amendment and restatement of the Existing Agreements or the Existing Notes as contemplated hereby.

Section 3. Effective Date.

Section 3.1. Effective Date. On December 12, 2002, or such other Business Day thereafter as may be mutually agreed upon by the Company and the Noteholders (the "Effective Date"), the Company shall execute and deliver to the Noteholders at the offices of Chapman and Cutler, 111 West Monroe Street, Chicago, Illinois 60603, at 10:00 A.M. Chicago time, or at such other place agreed to by the parties, one or more Notes (as set forth below each Noteholder's name on Schedule A), registered in the name specified on Schedule A, and in the denomination or denominations specified on Schedule A, in replacement of the Existing Notes held by each Noteholder (or such Noteholder's nominee), in the respective principal amounts, as more particularly set forth below its name on Schedule A. Contemporaneously with the receipt by each Noteholder of such Notes, the Existing Notes held by such Noteholder shall be deemed to

be cancelled and amended and restated by the Notes (regardless of whether such Noteholder shall have delivered to the Company for cancellation the Existing Notes held by it). Each Noteholder agrees to use commercially reasonable efforts to deliver the Existing Notes held by it to the Company in connection with the foregoing replacement and cancellation. All amounts owing under, and evidenced by, the Existing Notes as of the Effective Date shall continue to be outstanding under, and shall from and after the Effective Date be evidenced by, the Notes, and shall be governed by the terms of this Agreement. It is the intention of the parties hereto that the amendment and restatement of the Existing Notes by the Company and the execution, delivery and full effectiveness of this Agreement be simultaneous. Existing Notes delivered to the Company pursuant to the terms of this Agreement shall be marked "Cancelled/Amended and Restated by New Notes" by the Company.

If on the Effective Date the Company shall fail to tender the Notes to any Noteholder as provided in this Section 3.1, or any of the conditions specified in Section 4 shall not have been fulfilled to any Noteholder's reasonable satisfaction, such Noteholder shall, at such Noteholder's election, be relieved of all further obligations under this Agreement, without thereby waiving any rights such Noteholder may have under the Existing Agreements, the Existing Notes or otherwise by reason of such failure or such nonfulfillment.

Section 3.2. Survival of Payment Obligations. All payment obligations of the Company under the Existing Agreements (including, without limitation, reimbursement obligations in respect of costs, expenses and fees of or incurred by the holders of the Existing Notes), other than the obligation to pay the principal of and interest and Make-Whole Amount on the Existing Notes (which obligations, after the Effective Date, shall be evidenced by the Notes) shall survive the amendment and restatement of the Existing Agreements and the Existing Notes (and the cancellation thereof).

Section 4. Conditions Precedent.

The effectiveness of this Agreement is subject to the fulfillment to such Noteholder's satisfaction, prior to or on the Effective Date, of the following conditions:

Section 4.1. Representations and Warranties. The representations and warranties of the Company in this Agreement shall be correct when made and on the Effective Date.

Section 4.2. Performance; No Default. The Company shall have performed and complied with all agreements and conditions contained in this Agreement required to be performed or complied with by it prior to or on the Effective Date, and after giving effect to the transactions contemplated hereby, no Default or Event of Default shall have occurred and be continuing.

Section 4.3. Compliance Certificates.

(a) Officer's Certificate. The Company shall have delivered to such Noteholder an Officer's Certificate, dated the Effective Date, certifying that the conditions specified in Sections 4.1, 4.2 and 4.9 have been fulfilled.

(b) Secretary's Certificate. The Company shall have delivered to such Noteholder a certificate certifying as to the resolutions attached thereto and other corporate proceedings relating to the authorization, execution and delivery of the Notes and this Agreement.

Section 4.4. Opinions of Counsel. Such Noteholder shall have received opinions in form and substance satisfactory to such Noteholder, dated the Effective Date (a) from F. Samuel Eberts III, General Counsel of the Company, covering the matters set forth in Exhibit 4.4(a) and covering such other matters incident to the transactions contemplated hereby as such Noteholder or such Noteholder's counsel may reasonably request (and the Company hereby instructs its counsel to deliver such opinion to such Noteholder) and (b) from Chapman and Cutler, the Noteholders' special counsel in connection with such transactions, substantially in the form set forth in Exhibit 4.4(b) and covering such other matters incident to such transactions as such Noteholder may reasonably request.

Section 4.5. Exchange Permitted by Applicable Law, Etc. On the Effective Date the exchange of the Existing Notes for the Notes shall (i) be permitted by the laws and regulations of each jurisdiction to which each Noteholder is subject, without recourse to provisions (such as Section 1405(a)(8) of the New York Insurance Law) permitting limited investments by insurance companies without restriction as to the character of the particular investment, (ii) not violate any applicable law or regulation (including, without limitation, Regulation T, U or X of the Board of Governors of the Federal Reserve System) and (iii) not subject any Noteholder to any tax, penalty or liability under or pursuant to any applicable law or regulation, which law or regulation was not in effect on the date hereof. If requested by any Noteholder, such Noteholder shall have received an Officer's Certificate certifying as to such matters of fact as such Noteholder may reasonably specify to enable such Noteholder to determine whether such exchange is so permitted.

Section 4.6. Delivery and Exchange of Notes. On the Effective Date, the Company shall execute and deliver to the Noteholders, in exchange for the Existing Notes held by such Noteholders, Notes as specified on Schedule A.

Section 4.7. Payment of Special Counsel Fees. Without limiting the provisions of Section 15.1, the Company shall have paid on or before the Effective Date the fees, charges and disbursements of the Noteholders' special counsel referred to in Section 4.4 to the extent reflected in a statement of such counsel rendered to the Company at least one Business Day prior to the Effective Date.

Section 4.8. Private Placement Number. A Private Placement Number issued by Standard & Poor's CUSIP Service Bureau (in cooperation with the Securities Valuation Office of the National Association of Insurance Commissioners) shall have been obtained for the Notes.

Section 4.9. Changes in Corporate Structure. Except as specified in Schedule 4.9, at any time following the date of the most recent financial statements referred to in Schedule 5.5, the Company shall not have changed its jurisdiction of incorporation or been a party to any merger or consolidation and shall not have succeeded to all or any substantial part of the liabilities of any other entity.

Section 4.10. Proceedings and Documents. All corporate and other proceedings in connection with the transactions contemplated by this Agreement and all documents and instruments incident to such transactions shall be satisfactory to such Noteholder and such Noteholder's special counsel, and such Noteholder and such Noteholder's special counsel shall have received all such counterpart originals or certified or other copies of such documents as such Noteholder or such Noteholder's special counsel may reasonably request.

Section 5. Representations and Warranties of the Company.

The Company represents and warrants to each Noteholder, as of the Effective Date, that:

Section 5.1. Organization; Power and Authority. The Company is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation, and is duly qualified as a foreign corporation and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. The Company has the corporate power and authority to own or hold under lease the properties it purports to own or hold under lease, to transact the business it transacts and proposes to transact, to execute and deliver this Agreement and the Notes and to perform the provisions hereof and thereof.

Section 5.2. Authorization, Etc. This Agreement and the Notes have been duly authorized by all necessary corporate action on the part of the Company, and this Agreement constitutes, and upon execution and delivery thereof each Note will constitute, a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except as such enforceability may be limited by (a) applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and (b) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Section 5.3. Disclosure. The Company has delivered to each Noteholder copies of (a) the annual report as filed with the Securities and Exchange Commission on Form 10-K for the fiscal year ended December 31, 2001 (the "10-K") which generally sets forth the business conducted by the Company and its Subsidiaries and the principal properties of the Company and its Subsidiaries, and (b) the quarterly reports as filed with the Securities and Exchange Commission on Form 10-Q for the quarterly fiscal periods ended March 31, 2002 and June 30, 2002 (the "10-Qs"). This Agreement, the 10-K, the 10-Qs and the other financial statements listed in Schedule 5.5, taken as a whole, do not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading in light of the circumstances under which they were made. Since December 31, 2001, there has been no change in the financial condition, operations, business, properties or prospects of the Company or any Subsidiary except changes that individually or in the aggregate could not reasonably be expected to have a Material Adverse Effect. There is no fact known to the Company that could reasonably be expected to have a Material Adverse Effect that has not been set forth herein or in the other documents, certificates and other writings delivered to the Noteholders by or on behalf of the Company specifically for use in connection with the transactions contemplated hereby.

Section 5.4. Organization and Ownership of Shares of Subsidiaries; Affiliates. (a) Schedule 5.4 contains (except as noted therein) complete and correct lists (i) of the Company's Restricted Subsidiaries and Unrestricted Subsidiaries, showing, as to each Subsidiary, the correct name thereof, the jurisdiction of its organization, and the percentage of shares of each class of its capital stock or similar equity interests outstanding owned by the Company and each other Subsidiary, (ii) of the Company's Affiliates, other than Subsidiaries, and (iii) of the Company's directors and Executive Officers (as defined in Rule 405 of the Securities Act).

(b) All of the outstanding shares of capital stock or similar equity interests of each Subsidiary shown in Schedule 5.4 as being owned by the Company and its Subsidiaries have been validly issued, are fully paid and nonassessable and are owned by the Company or another Subsidiary free and clear of any Lien (except as otherwise disclosed in Schedule 5.4).

(c) Each Subsidiary identified in Schedule 5.4 is a corporation or other legal entity duly organized or formed, validly existing and in good standing under the laws of its jurisdiction of organization or formation, and is duly qualified as a foreign corporation or other legal entity and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Each such Subsidiary has the corporate or other power and authority to own or hold under lease the properties it purports to own or hold under lease and to transact the business it transacts and proposes to transact.

(d) No Subsidiary is a party to, or otherwise subject to, any legal restriction or any agreement (other than this Agreement, the agreements listed on Schedule 5.4 and customary limitations imposed by corporate law statutes) restricting the ability of such Subsidiary to pay dividends out of profits or make any other similar distributions of profits to the Company or any of its Subsidiaries that owns outstanding shares of capital stock or similar equity interests of such Subsidiary.

Section 5.5. Financial Statements. The Company has delivered to each Noteholder copies of the financial statements of the Company and its Subsidiaries listed on Schedule 5.5. All of said financial statements (including in each case the related schedules and notes) fairly present in all material respects the consolidated financial position of the Company and its Subsidiaries as of the respective dates specified in such financial statements and the consolidated results of their operations and cash flows for the respective periods so specified and have been prepared in accordance with GAAP consistently applied throughout the periods involved except (a) as set forth in the notes thereto (subject, in the case of any interim financial statements, to normal year-end adjustments) and (b) as specifically disclosed in writing by the Company (i) to the Noteholders in their capacity as holders of existing notes of the Company in that certain Waiver Agreement dated as of August 12, 2002 (including the Memorandum from the Company entitled "Accounting For Deferred Management Compensation and Deferred Directors' Fees" attached to said Waiver Agreement as Exhibit A) and (ii) in its public filings with the Securities and Exchange Commission.

Section 5.6. Compliance with Laws, Other Instruments, Etc. The execution, delivery and performance by the Company of this Agreement and the Notes will not (i) contravene, result in any breach of, or constitute a default under, or result in the creation of any Lien in respect of any property of the Company or any Subsidiary under, any indenture, mortgage, deed of trust, loan, purchase or credit agreement, lease, corporate charter or by-laws, or any other agreement or instrument to which the Company or any Subsidiary is bound or by which the Company or any Subsidiary or any of their respective properties may be bound or affected, (ii) conflict with or result in a breach of any of the terms, conditions or provisions of any order, judgment, decree, or ruling of any court, arbitrator or Governmental Authority applicable to the Company or any Subsidiary or (iii) violate any provision of any statute or other rule or regulation of any Governmental Authority applicable to the Company or any Subsidiary.

Section 5.7. Governmental Authorizations, Etc. No consent, approval or authorization of, or registration, filing or declaration with, any Governmental Authority is required in connection with the execution, delivery or performance by the Company of this Agreement or the Notes.

Section 5.8. Litigation; Observance of Agreements, Statutes and Orders. (a) Except as disclosed in Schedule 5.8, and excluding environmental matters which are covered in Section 5.18, there are no actions, suits or proceedings pending or, to the knowledge of the Company, threatened against or affecting the Company or any Subsidiary or any property of the Company or any Subsidiary in any court or before any arbitrator of any kind or before or by any Governmental Authority that, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

(b) Neither the Company nor any Subsidiary is in default under any term of any agreement or instrument to which it is a party or by which it is bound, or any order, judgment, decree or ruling of any court, arbitrator or Governmental Authority or is in violation of any applicable law, ordinance, rule or regulation (including without limitation Environmental Laws and ERISA) of any Governmental Authority, which default or violation, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

Section 5.9. Taxes. The Company and its Subsidiaries have filed all tax returns that are required to have been filed in any jurisdiction, and have paid all taxes shown to be due and payable on such returns and all other taxes and assessments levied upon them or their properties, assets, income or franchises, to the extent such taxes and assessments have become due and payable and before they have become delinquent, except for any taxes and assessments (a) the amount of which is not individually or in the aggregate Material or (b) the amount, applicability or validity of which is currently being contested in good faith by appropriate proceedings and with respect to which the Company or a Subsidiary, as the case may be, has established adequate reserves in accordance with GAAP. The Company knows of no basis for any other tax or assessment that could reasonably be expected to have a Material Adverse Effect. The charges, accruals and reserves on the books of the Company and its Subsidiaries in respect of Federal, state or other taxes for all fiscal periods are adequate. The Federal income tax liabilities of the Company and its Subsidiaries have been audited by the Internal Revenue Service and paid for all fiscal years up to and including the fiscal year ended December 31, 1997.

Section 5.10. Title to Property; Leases. The Company and its Subsidiaries have good and sufficient title to their respective properties that individually or in the aggregate are Material, including all such properties reflected in the most recent audited balance sheet referred to in Section 5.5 or purported to have been acquired by the Company or any Subsidiary after said date (except as sold or otherwise disposed of in the ordinary course of business), in each case free and clear of Liens prohibited by this Agreement. No financing statement under the Uniform Commercial Code which names the Company or any of its Restricted Subsidiaries as debtor has been filed in any jurisdiction, and neither the Company nor any of such Restricted Subsidiaries has signed any financing statement or any security agreement authorizing any secured party thereunder to file any such financing statement, except for precautionary filings described in Schedule 5.10 made in connection with leased equipment and as may otherwise be permitted by Section 10.3.

All leases that individually or in the aggregate are Material are valid and subsisting and are in full force and effect in all material respects. The Company and each Subsidiary enjoys peaceful and undisturbed possession of the premises occupied under all of the leases that are Material under which it is operating, none of which contains any unusual or burdensome provisions that could reasonably be expected to have a Material Adverse Effect. None of the assets or property the value of which is reflected in the Company's consolidated balance sheet as of December 31, 2001, is held by the Company as lessee under any lease or as conditional vendee under any conditional sale contract or other title retention agreement, other than Capitalized Leases included on such consolidated balance sheet and leasehold improvements on leased property in an aggregate amount (net after subtracting the reserve for amortization with respect to such leasehold improvements) not exceeding \$3,000,000.

Section 5.11. Licenses, Permits, Etc. Except as disclosed in Schedule 5.11,

(a) the Company and its Subsidiaries own or possess all licenses, permits, franchises, authorizations, patents, copyrights, service marks, trademarks and trade names, or rights thereto, except where the failure to own or possess could not reasonably be expected to have a Material Adverse Effect;

(b) to the best knowledge of the Company, no product of the Company infringes any license, permit, franchise, authorization, patent, copyright, service mark, trademark, trade name or other right owned by any other Person, except for any such infringement which could not reasonably be expected to have a Material Adverse Effect; and

(c) to the best knowledge of the Company, there is no violation by any Person of any right of the Company or any of its Subsidiaries with respect to any patent, copyright, service mark, trademark, trade name or other right owned or used by the Company or any of its Subsidiaries, except violations which could not reasonably be expected to have a Material Adverse Effect.

Section 5.12. Compliance with ERISA. (a) The Company and each ERISA Affiliate have operated and administered each Plan in compliance with all applicable laws except for such instances of noncompliance as have not resulted in and could not reasonably be expected to

result in a Material Adverse Effect. Neither the Company nor any ERISA Affiliate has incurred any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans (as defined in Section 3 of ERISA), and no event, transaction or condition has occurred or exists that could reasonably be expected to result in the incurrence of any such liability by the Company or any ERISA Affiliate, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate, in either case pursuant to Title I or IV of ERISA or to such penalty or excise tax provisions or to Section 401(a)(29) or 412 of the Code, other than such liabilities or Liens as would not be individually or in the aggregate reasonably likely to have a Material Adverse Effect.

(b) The present value of the aggregate benefit liabilities under each of the Plans (other than Multiemployer Plans), determined as of the end of such Plan's most recently ended plan year on the basis of the actuarial assumptions specified for funding purposes in such Plan's most recent actuarial valuation report, did not exceed the aggregate current value of the assets of such Plan allocable to such benefit liabilities by more than \$5,000,000 in the aggregate for all Plans. The term "benefit liabilities" has the meaning specified in Section 4001 of ERISA and the terms "current value" and "present value" have the meanings specified in Section 3 of ERISA.

(c) The Company and its ERISA Affiliates have not incurred withdrawal liabilities (and are not subject to contingent withdrawal liabilities) under Section 4201 or 4204 of ERISA in respect of Multiemployer Plans that individually or in the aggregate are Material.

(d) The expected post-retirement benefit obligation (determined as of the last day of the Company's most recently ended fiscal year in accordance with Financial Accounting Standards Board Statement No. 106, without regard to liabilities attributable to continuation coverage mandated by Section 4980B of the Code) of the Company and its Subsidiaries is not Material.

(e) The execution and delivery of this Agreement and the issuance and delivery of the Notes hereunder will not involve any transaction that is subject to the prohibitions of Section 406 of ERISA or in connection with which a tax could be imposed pursuant to Section 4975(c)(1)(A)-(D) of the Code. The representation by the Company in the first sentence of this Section 5.12(e) is made in reliance upon and subject to the accuracy of each Noteholder's representation in Section 6.2 as to the sources of the funds used to pay the purchase price of the Existing Notes to be exchanged by such Noteholder for the Notes.

Section 5.13. Private Offering by the Company. Neither the Company nor anyone acting on its behalf has offered the Notes or any similar securities for sale to, or solicited any offer to buy any of the same from, or otherwise approached or negotiated in respect thereof with, any Person other than the Noteholders. Neither the Company nor anyone acting on its behalf has taken, or will take, any action that would subject the issuance of the Notes to the registration requirements of Section 5 of the Securities Act.

Section 5.14. [Reserved].

Section 5.15. Existing Indebtedness; Future Liens. (a) Schedule 5.15 sets forth a complete and correct list of all outstanding Indebtedness of the Company and its Subsidiaries as

of June 30, 2002, since which date there has been no Material change in the amounts, interest rates, sinking funds, installment payments or maturities of such Indebtedness of the Company or its Subsidiaries. Neither the Company nor any Subsidiary is in default and no waiver of default is currently in effect, in the payment of any principal or interest on any Indebtedness for borrowed money or Capitalized Leases of the Company or such Subsidiary and no event or condition exists with respect to any Indebtedness of the Company or any Subsidiary that would permit (or that with notice or the lapse of time, or both, would permit) one or more Persons to cause such Indebtedness to become due and payable before its stated maturity or before its regularly scheduled dates of payment.

(b) Except as disclosed in Schedule 5.15, neither the Company nor any Subsidiary has agreed or consented to cause or permit in the future (upon the happening of a contingency or otherwise) any of its property, whether now owned or hereafter acquired, to be subject to a Lien not permitted by Section 10.3.

Section 5.16. Foreign Assets Control Regulations, Etc. The exchange of the Existing Notes for the Notes by the Company hereunder and compliance by the Company with the provisions hereof and of the Notes will not violate the Trading with the Enemy Act, as amended, any of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended), or the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (enacted October 26, 2001), or any enabling legislation or executive order relating to any of the foregoing. Without limiting the foregoing, neither the Company nor any of its Subsidiaries (a) is a blocked person described in Section 1 of Executive Order 13224 of September 23, 2001 Blocking Property and Prohibiting Transactions With Persons Who Commit and Threaten to Commit, or Support Terrorism (66 Fed. Reg. 49049 (2001)) or (b) knowingly engages in any dealings or transactions, or is otherwise associated, with any such blocked person.

Section 5.17. Status under Certain Statutes. Neither the Company nor any Subsidiary is an "investment company" registered or required to be registered under the Investment Company Act of 1940, as amended, or is subject to regulation under the Public Utility Holding Company Act of 1935, as amended, the ICC Termination Act of 1995, as amended, or the Federal Power Act, as amended.

Section 5.18. Environmental Matters. Except as set forth in Schedule 5.18 and in the 10-K and the 10-Qs,

(a) the Company complies with all applicable Environmental Laws, except where the failure to comply could not reasonably be expected to have a Material Adverse Effect; and

(b) neither the Company nor any Subsidiary has knowledge of any claim or has received any written notice of any claim, and no proceeding has been instituted raising any claim against the Company or any of its Subsidiaries or any of their respective real properties now or formerly owned, leased or operated by any of them or other assets, alleging any damage to the environment or violation of any Environmental Laws, except,

in each case, such as could not reasonably be expected to result in a Material Adverse Effect.

Section 6. Representations of the Noteholder.

Section 6.1. Acquisition for Investment. Each Noteholder represents that it acquired the Existing Notes amended and restated hereunder for its own account or for one or more separate accounts maintained by it or for the account of one or more pension or trust funds and not with a view to the distribution thereof, provided that the disposition of such Noteholder's or such pension or trust funds' property shall at all times be within such Noteholder's or such pension or trust funds' control. Each Noteholder understands that the Notes have not been registered under the Securities Act and may be resold only if registered pursuant to the provisions of the Securities Act or if an exemption from registration is available, except under circumstances where neither such registration nor such an exemption is required by law, and that the Company is not required to register the Notes.

Section 6.2. Source of Funds. Each Noteholder represents that at least one of the following statements is an accurate representation as to each source of funds (a "Source") used by it to pay the purchase price of the Existing Notes amended and restated hereunder:

(a) the Source is an "insurance company general account" within the meaning of Department of Labor Prohibited Transaction Exemption ("PTE") 95-60 (issued July 12, 1995) and there is no employee benefit plan, treating as a single plan, all plans maintained by the same employer or employee organization, with respect to which the amount of the general account reserves and liabilities for all contracts held by or on behalf of such plan, exceed ten percent (10%) of the total reserves and liabilities of such general account (exclusive of separate account liabilities) plus surplus, as set forth in the NAIC Annual Statement for such Noteholder most recently filed with such Noteholder's state of domicile; or

(b) the Source is either (i) an insurance company pooled separate account, within the meaning of PTE 90-1 (issued January 29, 1990), or (ii) a bank collective investment fund, within the meaning of the PTE 91-38 (issued July 12, 1991) and, except as such Noteholder has disclosed to the Company in writing pursuant to this paragraph (b), no employee benefit plan or group of plans maintained by the same employer or employee organization beneficially owns more than 10% of all assets allocated to such pooled separate account or collective investment fund; or

(c) the Source constitutes assets of an "investment fund" (within the meaning of Part V of the QPAM Exemption) managed by a "qualified professional asset manager" or "QPAM" (within the meaning of Part V of the QPAM Exemption), no employee benefit plan's assets that are included in such investment fund, when combined with the assets of all other employee benefit plans established or maintained by the same employer or by an affiliate (within the meaning of Section V(c)(1) of the QPAM Exemption) of such employer or by the same employee organization and managed by such QPAM, exceed 20% of the total client assets managed by such QPAM, the conditions of Part I(c)

and (g) of the QPAM Exemption are satisfied, neither the QPAM nor a person controlling or controlled by the QPAM (applying the definition of "control" in Section V(e) of the QPAM Exemption) owns a 5% or more interest in the Company and (i) the identity of such QPAM and (ii) the names of all employee benefit plans whose assets are included in such investment fund have been disclosed to the Company in writing pursuant to this paragraph (c); or

(d) the Source is a governmental plan; or

(e) the Source is one or more employee benefit plans, or a separate account or trust fund comprised of one or more employee benefit plans, each of which has been identified to the Company in writing pursuant to this paragraph (e); or

(f) the Source does not include assets of any employee benefit plan, other than a plan exempt from the coverage of ERISA.

If any Noteholder or any subsequent transferee of the Notes indicates in writing that such Noteholder or such transferee is relying on any representation contained in paragraph (b), (c) or (e) above, the Company shall deliver on the Effective Date and on the date of any applicable transfer a certificate, which shall either state that (i) it is neither a party in interest nor a "disqualified person" (as defined in Section 4975(e)(2) of the Code), with respect to any plan identified pursuant to paragraphs (b) or (e) above, or (ii) with respect to any plan, identified pursuant to paragraph (c) above, neither it nor any "affiliate" (as defined in Section V(c) of the QPAM Exemption) has at such time, and during the immediately preceding one year, exercised the authority to appoint or terminate said QPAM as manager of any plan identified in writing pursuant to paragraph (c) above or to negotiate the terms of said QPAM's management agreement on behalf of any such identified plan. As used in this Section 6.2, the terms "employee benefit plan", "governmental plan", "party in interest" and "separate account" shall have the respective meanings assigned to such terms in Section 3 of ERISA.

Section 7. Information as to Company.

Section 7.1. Financial and Business Information. The Company shall deliver to each holder of Notes that is an Institutional Investor:

(a) Quarterly Statements -- within 60 days after the end of each quarterly fiscal period in each fiscal year of the Company (other than the last quarterly fiscal period of each such fiscal year), duplicate copies of:

(i) a consolidated balance sheet of the Company and its Subsidiaries as at the end of such quarter, and

(ii) consolidated statements of income, changes in shareholders' equity and cash flows of the Company and its Subsidiaries for such quarter and (in the case of the second and third quarters) for the portion of the fiscal year ending with such quarter,

setting forth in each case in comparative form the figures for the corresponding periods in the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP applicable to quarterly financial statements generally, and certified by a Senior Financial Officer as fairly presenting, in all material respects, the financial position of the companies being reported on and their results of operations and cash flows, subject to changes resulting from year-end adjustments, provided that delivery within the time period specified above of copies of the Company's Quarterly Report on Form 10-Q prepared in compliance with the requirements therefor and filed with the Securities and Exchange Commission shall be deemed to satisfy the requirements of this Section 7.1(a);

(b) Annual Statements-- within 90 days after the end of each fiscal year of the Company, duplicate copies of:

(i) a consolidated balance sheet of the Company and its Subsidiaries, as at the end of such year, and

(ii) consolidated statements of income, changes in shareholders' equity and cash flows of the Company and its Subsidiaries, for such year,

setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP, and accompanied by

(A) an opinion thereon of independent certified public accountants of recognized national standing, which opinion shall state that such financial statements present fairly, in all material respects, the financial position of the companies being reported upon and their results of operations and cash flows and have been prepared in conformity with GAAP, and that the examination of such accountants in connection with such financial statements has been made in accordance with generally accepted auditing standards, and that such audit provides a reasonable basis for such opinion in the circumstances, and

(B) a certificate of such accountants stating that they have reviewed this Agreement and containing substantially the following: "We have audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheet of Stepan Company as of December 31, 20xx, and the related statements of income, stockholders' equity, and cash flows for the year then ended, and have issued our report thereon. In connection with our audit, nothing came to our attention that caused us to believe that the Company failed to comply with the terms, covenants, provisions or conditions of Section 10.1, 10.2(a)(iii) and 10.6 of the Amended and Restated Note Agreement dated as of December __, 2002, with the holders of the Notes stated therein (the "Noteholders") insofar as they relate to financial and accounting matters (except as hereinafter specified). However, our audit was not directed primarily toward obtaining knowledge of noncompliance with such Sections. This

report is intended solely for the information and use of the boards of directors and management of Stepan Company and the Noteholders, and is not intended to be and should not be used by anyone other than these specified parties."

provided that the delivery within the time period specified above of the Company's Annual Report on Form 10-K for such fiscal year (together with the Company's annual report to shareholders, if any, prepared pursuant to Rule 14a-3 under the Exchange Act) prepared in accordance with the requirements therefor and filed with the Securities and Exchange Commission, together with the accountant's certificate described in clause (B) above, shall be deemed to satisfy the requirements of this Section 7.1(b);

(c) Restricted Subsidiaries and Unrestricted Subsidiaries -- if, and so long as, the Company has (i) one or more Restricted Subsidiaries, the financial statements referred to in Section 7.1(a) and Section 7.1(b) shall be on a consolidated basis prepared in accordance with GAAP, or (ii) one or more Unrestricted Subsidiaries, the Company shall deliver to the holders of the Notes, promptly after receipt thereof, copies of balance sheets and income and surplus and cash flows statements of each such Subsidiary, prepared in accordance with GAAP, which are not included in the financial statements furnished pursuant to Section 7.1(b), in the form delivered to the Company for the fiscal year of each such Subsidiary;

(d) SEC and Other Reports -- promptly upon their becoming available, one copy of (i) each financial statement, report, notice or proxy statement sent by the Company or any Subsidiary to public securities holders generally, and (ii) each regular or periodic report, each registration statement (without exhibits except as expressly requested by such holder), and each prospectus and all amendments thereto filed by the Company or any Subsidiary with the Securities and Exchange Commission and of all press releases and other statements made available generally by the Company or any Subsidiary to the public concerning developments that are Material;

(e) Notice of Default or Event of Default -- promptly, and in any event within five Business Days (i) after a Responsible Officer becoming aware of the existence of any Default or Event of Default or that any Person has given any notice or taken any action with respect to a claimed default hereunder or that any Person has given any notice or taken any action with respect to a claimed default of the type referred to in Section 11(f), a written notice specifying the nature and period of existence thereof and what action the Company is taking or proposes to take with respect thereto and (ii) of their becoming available, one copy of any letter, certificate or other writing supplied by the Company's independent public accountants to any other Person pertaining to whether such accountants have cause to believe that there has been any default by the Company under any other agreement or evidence of Indebtedness;

(f) ERISA Matters -- promptly, and in any event within five Business Days after a Responsible Officer becoming aware of any of the following, a written notice

setting forth the nature thereof and the action, if any, that the Company or an ERISA Affiliate proposes to take with respect thereto:

(i) with respect to any Plan, any reportable event, as defined in section 4043(b) of ERISA and the regulations thereunder, for which notice thereof has not been waived pursuant to such regulations as in effect on the date hereof; or

(ii) the taking by the PBGC of steps to institute, or the threatening by the PBGC of the institution of, proceedings under section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan, or the receipt by the Company or any ERISA Affiliate of a notice from a Multiemployer Plan that such action has been taken by the PBGC with respect to such Multiemployer Plan; or

(iii) any event, transaction or condition that could result in the incurrence of any liability by the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or such penalty or excise tax provisions, if such liability or Lien, taken together with any other such liabilities or Liens then existing, could reasonably be expected to have a Material Adverse Effect;

(g) Notices from Governmental Authority -- promptly, and in any event within 30 days of receipt thereof, copies of any notice to the Company or any Subsidiary of which a Responsible Officer is aware from any Federal or state Governmental Authority relating to any order, ruling, statute or other law or regulation that could reasonably be expected to have a Material Adverse Effect, provided that, with respect to notices regarding environmental matters at the Company's Maywood, New Jersey property, the Company shall only be required to send copies of such notices containing information regarding (i) adverse developments which are Material or (ii) matters not previously disclosed that could reasonably be expected to have a Material Adverse Effect; and

(h) Notice of Change of Control -- without limiting the obligations of the Company set forth in Section 8.3, promptly, and in any event within two Business Days of the earlier of becoming aware of the execution of a Definitive Agreement by the Company or the consummation of a Change of Control (as defined in Section 8.3), give notice thereof to all holders of the Notes; and

(i) Requested Information -- with reasonable promptness, such other data and information relating to the business, operations, affairs, financial condition, assets or properties of the Company or any of its Subsidiaries or relating to the ability of the Company to perform its obligations hereunder and under the Notes as from time to time may be reasonably requested by any such holder of Notes.

Section 7.2. Officer's Certificate. Each set of financial statements delivered to a holder of Notes pursuant to Section 7.1(a) or Section 7.1(b) hereof shall be accompanied by a certificate of a Senior Financial Officer setting forth:

(a) Covenant Compliance -- the information (including reasonably detailed calculations) required in order to establish whether the Company was in compliance with the requirements of Section 10.1 through Section 10.10 hereof, inclusive, during the quarterly or annual period covered by the statements then being furnished (including with respect to each such Section, where applicable, the calculations of the maximum or minimum amount, ratio or percentage, as the case may be, permissible under the terms of such Sections, and the calculation of the amount, ratio or percentage then in existence); and

(b) Event of Default -- a statement that such officer has reviewed the relevant terms hereof and has made, or caused to be made, under his or her supervision, a review of the transactions and conditions of the Company and its Subsidiaries from the beginning of the quarterly or annual period covered by the statements then being furnished to the date of the certificate and that such review shall not have disclosed the existence during such period of any condition or event that constitutes a Default or an Event of Default or, if any such condition or event existed or exists (including, without limitation, any such event or condition resulting from the failure of the Company or any Subsidiary to comply with any Environmental Law), specifying the nature and period of existence thereof and what action the Company shall have taken or proposes to take with respect thereto.

Section 7.3. Inspection. The Company shall permit the representatives of each holder of Notes that is an Institutional Investor:

(a) No Default -- if no Default or Event of Default then exists, at the expense of such holder and upon reasonable prior notice to the Company, to visit the principal executive office of the Company, to discuss the affairs, finances and accounts of the Company and its Subsidiaries with the Company's officers, and (with the consent of the Company, which consent will not be unreasonably withheld) its independent public accountants with a representative of the Company being present, at the option of the Company, and (with the consent of the Company, which consent will not be unreasonably withheld) to visit the other offices and properties of the Company and each Subsidiary, all at such reasonable times and as often as may be reasonably requested in writing; and

(b) Default -- if a Default or Event of Default then exists, at the expense of the Company, to visit and inspect any of the offices or properties of the Company or any Subsidiary, to examine all their respective books of account, records, reports and other papers, to make copies and extracts therefrom, and to discuss their respective affairs, finances and accounts with their respective officers and independent public accountants (and by this provision the Company authorizes said accountants to discuss the affairs, finances and accounts of the Company and its Subsidiaries), all at such times and as often as may be requested.

Section 8. Prepayment of the Notes.

Section 8.1. Required Prepayments. In addition to paying the entire outstanding principal amount and the interest due on the Notes on the maturity date thereof, on October 1 in each year, commencing October 1, 2003 and ending October 1, 2012 (herein called "Fixed Payment Dates"), both inclusive, the Company will prepay \$2,727,272 principal amount (or such lesser principal amount as shall then be outstanding) of the Notes at par and without payment of the Make-Whole Amount or any premium, provided that upon any partial prepayment of the Notes pursuant to Section 8.2 or Section 8.3 or purchase of the Notes permitted by Section 8.6 the principal amount of each required prepayment of the Notes becoming due under this Section 8.1 on and after the date of such prepayment or purchase shall be reduced in the same proportion as the aggregate unpaid principal amount of the Notes is reduced as a result of such prepayment or purchase.

Section 8.2. Optional Prepayments. (a) Without Make-Whole Amount. In addition to the prepayments required by Section 8.1, the Company, at its option, upon notice as provided below, shall have the privilege (which shall be non-cumulative) of prepaying outstanding Notes on any Fixed Payment Date in units of \$100,000 or an integral multiple of \$10,000 in excess thereof, by payments of the principal amount of the Notes to be prepaid and accrued interest thereon to the date of such payment and without premium; provided however that (i) the principal amount of Notes that may be prepaid pursuant to this Section 8.2(a) on any one Fixed Payment Date shall not exceed the principal amount of the Notes required to be prepaid pursuant to Section 8.1 on such Fixed Payment Date and (ii) the aggregate amount of all Notes prepaid pursuant to this Section 8.2 shall not exceed an amount equal to \$10,000,000.

(b) With Make-Whole Amount. In addition to the prepayments required by Section 8.1 and the rights of prepayment set forth in Section 8.2(a), the Company may, at its option, upon notice as provided below, prepay at any time all, or from time to time any part of, the Notes, in units of \$1,000,000 or an integral multiple of \$10,000 in excess thereof in the case of a partial prepayment, at 100% of the principal amount so prepaid, together with interest accrued thereon to the date of such prepayment, plus the Make-Whole Amount determined for the prepayment date with respect to such principal amount.

(c) Notices of Optional Prepayments. The Company will give each holder of Notes written notice of each optional prepayment under Section 8.2(a) and Section 8.2(b) not less than 30 days and not more than 60 days prior to the date fixed for such prepayment. Each such notice shall specify such date, the aggregate principal amount of the Notes to be prepaid on such date, the principal amount of each Note held by such holder to be prepaid (determined in accordance with Section 8.4), and the interest to be paid on the prepayment date with respect to such principal amount being prepaid, and, in the case of prepayments made pursuant to Section 8.2(b), shall be accompanied by a certificate of a Senior Financial Officer as to the estimated Make-Whole Amount due in connection with such prepayment (calculated as if the date of such notice were the date of the prepayment), setting forth the details of such computation. Two Business Days prior to such prepayment, the Company shall deliver to each holder of Notes a certificate of a Senior Financial Officer specifying the calculation of such Make-Whole Amount as of the specified prepayment date.

Section 8.3. Prepayment on Failure of Noteholders to Consent to Change of Control. In the event that the Company shall request the holders of the Notes in writing to consent to a Change of Control and the holder or holders of any Notes shall, within 30 days following the receipt of such a request, have refused in writing to consent to such a Change of Control, then the Company may at its option, but shall prior to the Change of Control, at any time within 30 days after the earlier of (x) the receipt of a response to such request from the holder or holders of 100% of the outstanding Notes, or (y) the expiration of such 30 day period, and upon not less than three Business Days prior written notice, prepay all (but not less than all) Notes held by each holder which has refused to consent to such Change of Control by prepayment of the principal amount thereof and accrued interest thereon to the date of such prepayment, but without any premium or Make Whole Amount. Any holder which has failed to respond in writing to such request prior to the expiration of such 30 day period shall, for all purposes hereof, be deemed to have consented to such Change of Control. Any request by the Company made pursuant to this Section 8.3 shall set forth (i) a summary of the transaction or transactions causing the Change of Control, (ii) the name and address of the "person" described in clause (i) or (ii) of the definition of the term "Change of Control" set forth below, (iii) such information relating to the acquiror and pro forma financial or other information as would be reasonably necessary for each holder to make an informed decision with respect to such request, (iv) a statement as to whether, at the time of such Change of Control and after giving effect thereto, either any Event of Default or any event which, with the passage of time or giving of notice, or both, would become an Event of Default, shall have occurred and be continuing and (v) a specific reference to this Section 8.3 and the requirement that the holders must respond in writing by the date set forth in the notice and that failure to respond in writing by such specified date shall be deemed consent by such holder to the Change of Control. In the event that the Company shall receive a response to its request from any holder of a Note, it will promptly deliver a copy thereof to all other holders of Notes.

For purposes of this Agreement, the term "Change of Control" shall mean and shall be deemed to have occurred, (i) upon the Acquisition by any "person" (as that term is used in Sections 13(d) and 14(d)(2) of the Exchange Act) of beneficial ownership, direct or indirect, of more than 50% of the outstanding Voting Stock of the Company, or (ii) upon the Acquisition of the Company, or all or substantially all of its assets by, or the combination of the Company, or all or substantially all of its assets with, another "person" (as defined above), unless, in the case of either of the foregoing clauses (i) or (ii), the acquiring or surviving "person" shall be a corporation more than 50% of the outstanding Voting Stock of which is owned, immediately after such Acquisition or combination, by the owners of the Voting Stock of the Company immediately prior to such Acquisition or combination. The term "Acquisition" shall mean the earlier to occur of (x) the actual possession of the subject Voting Stock or assets, and (y) the consummation of any transaction or series of related transactions which, with the passage of time, will give such person the actual possession thereof. The term "Voting Stock" shall mean securities of any class or classes, the holders of which are ordinarily, in the absence of contingencies, entitled to elect a majority of the corporate directors (or persons performing similar functions).

Section 8.4. Allocation of Partial Prepayments. In the case of each partial prepayment of the Notes pursuant to Sections 8.2(a) and 8.2(b), the principal amount of the Notes to be

prepaid shall be allocated among all of the Notes at the time outstanding in proportion, as nearly as practicable, to the respective unpaid principal amounts thereof. All partial prepayments made pursuant to Section 8.3 shall be applied only to the Notes of the holders who have refused in writing to consent to a Change of Control.

Section 8.5. Maturity; Surrender, Etc. In the case of each prepayment of Notes pursuant to this Section 8, the principal amount of each Note to be prepaid shall mature and become due and payable on the date fixed for such prepayment, together with interest on such principal amount accrued to such date and the applicable Make-Whole Amount, if any. From and after such date, unless the Company shall fail to pay such principal amount when so due and payable, together with the interest and Make-Whole Amount, if any, as aforesaid, interest on such principal amount shall cease to accrue. Any Note paid or prepaid in full shall be surrendered to the Company and cancelled and shall not be reissued, and no Note shall be issued in lieu of any prepaid principal amount of any Note.

Section 8.6. Purchase of Notes. The Company will not and will not permit any Affiliate to purchase, redeem, prepay or otherwise acquire, directly or indirectly, any of the outstanding Notes except upon the payment or prepayment of the Notes in accordance with the terms of this Agreement and the Notes. The Company will promptly cancel all Notes acquired by it or any Affiliate pursuant to any payment, prepayment or purchase of Notes pursuant to any provision of this Agreement and no Notes may be issued in substitution or exchange for any such Notes.

Section 8.7. Make-Whole Amount. The term "Make-Whole Amount" means, with respect to any Note, an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments with respect to the Called Principal of such Note over the amount of such Called Principal, provided that the Make-Whole Amount may in no event be less than zero. For the purposes of determining the Make-Whole Amount, the following terms have the following meanings:

"Called Principal" means, with respect to any Note, the principal of such Note that is to be prepaid pursuant to Section 8.2(b) or has become or is declared to be immediately due and payable pursuant to Section 12.1, as the context requires.

"Discounted Value" means, with respect to the Called Principal of any Note, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on the Notes is payable) equal to the Reinvestment Yield with respect to such Called Principal.

"Reinvestment Yield" means, with respect to the Called Principal of any Note, 0.50% over the yield to maturity implied by (i) the yields reported, as of 10:00 A.M. (New York City time) on the second Business Day preceding the Settlement Date with respect to such Called Principal, on page "PX-1" of the Bloomberg Financial Markets Service Screen (or, if not available, any other nationally recognized trading screen reporting on-line intraday trading in U.S. Treasury securities) for actively traded U.S.

Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or (ii) if no such nationally recognized trading screen reporting on-line intraday trading in United States government securities is available, the Treasury Constant Maturity Series Yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. Such implied yield will be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond-equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between (1) the actively traded U.S. Treasury security with the duration closest to and greater than the Remaining Average Life and (2) the actively traded U.S. Treasury security with the duration closest to and less than the Remaining Average Life.

"Remaining Average Life" means, with respect to any Called Principal, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) the principal component of each Remaining Scheduled Payment with respect to such Called Principal by (b) the number of years (calculated to the nearest one-twelfth year) that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

"Remaining Scheduled Payments" means, with respect to the Called Principal of any Note, all payments of such Called Principal and interest thereon that would be due after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date, provided that if such Settlement Date is not a date on which interest payments are due to be made under the terms of the Notes, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date pursuant to Section 8.2 or 12.1.

"Settlement Date" means, with respect to the Called Principal of any Note, the date on which such Called Principal is to be prepaid pursuant to Section 8.2 or has become or is declared to be immediately due and payable pursuant to Section 12.1, as the context requires.

Section 9. Affirmative Covenants.

The Company covenants that so long as any of the Notes are outstanding:

Section 9.1. Compliance with Law. The Company will, and will cause each of its Subsidiaries to, comply with all laws, ordinances or governmental rules or regulations to which each of them is subject, including, without limitation, Environmental Laws, and will obtain and maintain in effect all licenses, certificates, permits, franchises and other governmental authorizations necessary to the ownership of their respective properties or to the conduct of their

respective businesses, in each case, except to the extent that non-compliance with such laws, ordinances or governmental rules or regulations, or failure to obtain or maintain in effect such licenses, certificates, permits, franchises and other governmental authorizations, could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

Section 9.2. Insurance. The Company will, and will cause each of its Subsidiaries to, maintain, with financially sound and reputable insurers, insurance with respect to their respective properties and businesses against such casualties and contingencies, of such types, on such terms and in such amounts (including deductibles, co-insurance and self-insurance, if adequate reserves are maintained with respect thereto) as is customary in the case of entities of established reputations engaged in the same or a similar business and similarly situated.

Section 9.3. Maintenance of Properties. The Company will, and will cause each of its Subsidiaries to, maintain and keep, or cause to be maintained and kept, their respective Material properties in good repair, working order and condition (other than ordinary wear and tear), so that the business carried on in connection therewith may be properly conducted at all times, provided that this Section shall not prevent the Company or any Subsidiary from discontinuing the operation and the maintenance of any of its properties if such discontinuance is desirable in the conduct of its business.

Section 9.4. Payment of Taxes and Claims. The Company will, and will cause each of its Subsidiaries to, file all tax returns required to be filed in any jurisdiction and to pay and discharge all taxes shown to be due and payable on such returns and all other taxes, assessments, governmental charges, or levies imposed on them or any of their properties, assets, income or franchises, to the extent such taxes and assessments have become due and payable and before they have become delinquent and all claims for which sums have become due and payable that have or might become a Lien on properties or assets of the Company or any Subsidiary, provided that neither the Company nor any Subsidiary need pay any such tax or assessment or claims if (a) the amount, applicability or validity thereof is contested by the Company or such Subsidiary on a timely basis in good faith and in appropriate proceedings, and the Company or a Subsidiary has established adequate reserves therefor in accordance with GAAP on the books of the Company or such Subsidiary or (b) the nonpayment of all such taxes and assessments in the aggregate could not reasonably be expected to have a Material Adverse Effect.

Section 9.5. Corporate Existence, Etc. The Company will at all times preserve and keep in full force and effect its corporate existence. Subject to Section 10.8, the Company will at all times preserve and keep in full force and effect the corporate existence of each of its Restricted Subsidiaries (unless merged into the Company or a Wholly-Owned Restricted Subsidiary or dissolved and the property and assets of such Subsidiary are divided up to the Company or to a Wholly-Owned Restricted Subsidiary) and all rights and franchises of the Company and its Subsidiaries unless, in the good faith judgment of the Company, the termination of or failure to preserve and keep in full force and effect such corporate existence, right or franchise could not, individually or in the aggregate, have a Material Adverse Effect.

Section 9.6. Payment of Principal, Make-Whole Amount and Interest. The Company will pay or cause to be paid when due the principal and interest, and Make-Whole Amount, if any, to become due in respect of all the Notes according to the terms thereof.

Section 9.7. Keeping of Books. The Company will, and will cause each Subsidiary to, (a) at all times keep proper books of record and account in which full, true and correct entries will be made of its transactions in accordance with GAAP; and (b) set aside on its books from its earnings, for the fiscal year ending December 31, 2002, and each fiscal year thereafter, proper reserves which, in accordance with GAAP, should be set aside from such earnings in connection with its business.

Section 9.8. Guaranty by Subsidiaries. The Company will cause each Subsidiary which delivers a Guaranty to any Person (collectively, the "Subsidiary Guarantors") in respect of any Indebtedness of the Company outstanding under the Revolving Credit Agreement to concurrently enter into a Subsidiary Guaranty, and within five Business Days thereafter shall deliver to each of the holders of the Notes the following items:

(a) an executed counterpart of such Subsidiary Guaranty or joinder agreement in respect of an existing Subsidiary Guaranty, as appropriate;

(b) an executed counterpart of an intercreditor agreement among the holders of the Notes and each such Person to which a Subsidiary is then delivering a Guaranty giving rise to the requirements of this Section 9.8, which agreement shall be in form and substance reasonably satisfactory to the holders of the Notes and shall provide that the proceeds from the enforcement of all such Subsidiary Guaranties shall be shared on an equal and ratable basis among the holders of the Notes and such other Persons; and

(c) an opinion of counsel satisfactory to the Required Holders to the effect that such Subsidiary Guaranty has been duly authorized, executed and delivered and constitutes the legal, valid and binding contract and agreement of such Subsidiary enforceable in accordance with its terms, except as an enforcement of such terms may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws affecting the enforcement of creditors' rights generally and by general equitable principles.

Section 10. Negative Covenants.

The Company covenants that so long as any of the Notes are outstanding:

Section 10.1. Financial Covenants.

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

(b) Funded Indebtedness Limitation. At no time shall the Company permit the ratio of (i) Consolidated Funded Indebtedness of the Company and its Restricted Subsidiaries to (ii) Consolidated Capitalization to exceed 0.55 to 1.00; provided that for purposes of this Section 10.1(b) all Indebtedness secured pursuant to the provisions of Sections 10.3(b), (c) and (d) shall constitute Funded Indebtedness.

(c) Secured Funded Indebtedness Limitation. The Company will not create, incur, issue, assume or become liable, contingently or otherwise, in respect of any secured Funded Indebtedness other than secured Funded Indebtedness incurred or assumed solely for the purpose of financing the acquisition of any property and secured only as permitted under Sections 10.3(b), (c) and (d), provided that

(x) the aggregate unpaid principal amount of all Indebtedness of the Company and its Restricted Subsidiaries secured by the mortgages or Liens permitted by Sections 10.3(b), (c) and (d) shall not at any time exceed an amount equal to 10% of Consolidated Capitalization, and

(y) the sum, without duplication, of (i) the aggregate unpaid principal amount of all Indebtedness of Restricted Subsidiaries permitted by Section 10.2(a)(iii)(A) (excluding Specified Subsidiary Indebtedness), (ii) the aggregate unpaid principal amount of all Indebtedness of the Company secured pursuant to the provisions of Sections 10.3(b), (c) and (d), and (iii) the aggregate amount of liabilities of the Company and its Restricted Subsidiaries secured by Liens permitted pursuant to the provisions of Section 10.3(k), shall not at any time exceed 20% of Consolidated Capitalization.

Section 10.2. Limitations on Restricted Subsidiaries. The Company will not cause, suffer or permit any Restricted Subsidiary to:

(a) create, incur, issue, assume or become or be liable, contingently or otherwise, in respect of any Indebtedness except:

(i) Indebtedness owing to the Company or to a Wholly-Owned Restricted Subsidiary,

(ii) unsecured accounts payable and other unsecured obligations (other than as a result of borrowing) incurred in the ordinary course of business of such Subsidiary, and

(iii) Indebtedness in addition to that described in subclauses (i) and (ii) above; provided that

(A) the aggregate principal amount of all Indebtedness of Restricted Subsidiaries (other than as described in subclauses (i) and (ii) above and other than Specified Subsidiary Indebtedness) shall not at any time exceed 10% of Consolidated Capitalization;

(B) the sum, without duplication, of (x) the aggregate unpaid principal amount of all such Indebtedness permitted by subclause (iii)(A), (y) the aggregate unpaid principal amount of all Indebtedness of the Company secured pursuant to the provisions of Sections 10.3(b), (c) and (d), and (z) the aggregate amount of liabilities of the Company and its Restricted Subsidiaries secured by Liens permitted pursuant to the provisions of Section 10.3(k), shall not at any time exceed 20% of Consolidated Capitalization; and

(C) at the time of creation, incurrence, issuance, assumption or guarantee thereof and after giving effect thereto and to the application of the proceeds thereof, no Default or Event of Default would exist (including, without limitation, under Section 10.1(b) hereof); or

(b) issue or sell any shares of its capital stock or securities convertible into such capital stock except (i) issuance or sale of directors' qualifying shares, (ii) issuance or sale to the Company or to any Wholly-Owned Restricted Subsidiary, (iii) issuance or sale of additional shares of stock of any such Subsidiary to any holders thereof entitled to receive or purchase such additional shares through the declaration of a stock dividend or through the exercise of preemptive rights and (iv) issuance or sale to any Substantially-Owned Restricted Subsidiary for fair value, provided that the Dilution of the Company's and its Restricted Subsidiaries' interests in the Subsidiary whose shares of capital stock or convertible securities are so issued or sold shall be treated as a sale of assets by the Company and such sale or deemed sale shall be permitted by Section 10.8; or

(c) sell, assign, transfer or otherwise dispose of any shares of capital stock of any class of any other Restricted Subsidiary, or any other security of, or any Indebtedness owing to it by, any other Restricted Subsidiary (except in each case to the Company or to a Wholly-Owned Restricted Subsidiary) unless such sale, assignment, transfer or other disposition (i) shall be to a Substantially-Owned Restricted Subsidiary for fair value and the Dilution of the Company's and its Restricted Subsidiaries' interests in the Subsidiary whose shares of capital stock, securities or Indebtedness are so sold, assigned, transferred or disposed of shall be treated as a sale of assets of the Company and such sale or deemed sale shall be permitted by Section 10.8 or (ii) shall meet all the conditions set forth in Section 10.7 which would be applicable to a similar disposition made by the Company; or

(d) consolidate with or merge into any other corporation or permit any other corporation to merge into it, except a merger into or consolidation with (i) the Company, (ii) any Wholly-Owned Restricted Subsidiary or (iii) any other corporation if, immediately thereafter, (y) the surviving corporation shall be a Restricted Subsidiary, and (z) the Company shall be in full compliance with all the terms and provisions of this Agreement and the Notes; or

(e) sell, lease, transfer or otherwise dispose of all or any substantial part of its property and assets except (i) to the Company or any Wholly-Owned Restricted Subsidiary or (ii) in the case of a sale to any other Person, in compliance with all applicable requirements of Sections 10.7, 10.8 and 10.11; or

(f) make any Investments or commitments to make Investments except as expressly permitted by Section 10.5.

Any corporation which becomes a Restricted Subsidiary after the date hereof shall for all purposes of this Section 10.2 be deemed to have created, assumed or incurred, at the time it becomes a Restricted Subsidiary, all Indebtedness of such corporation existing immediately after it becomes a Restricted Subsidiary.

Section 10.3. Limitations on Liens. The Company will not itself, and will not permit or suffer any Restricted Subsidiary to, create or incur or suffer to be created or incurred or to exist any mortgage, Lien, security interest, charge or encumbrance of any kind on, or pledge of, any property or assets of any kind, real or personal, tangible or intangible, of the Company or any such Subsidiary, whether owned on the Effective Date or thereafter acquired, or acquire or agree to acquire any property or assets of any kind under a conditional sale agreement or other title retention agreement or file or permit the filing of any financing statement under the Uniform Commercial Code or other similar notice under any other similar statute without equally and ratably securing the Notes with all other obligations secured thereby and which security shall be created and conveyed by documentation (which may include an intercreditor agreement) determined prior to such conveyance to be satisfactory in scope, form and substance to the Required Holders and which security shall continue in full force and effect until either (x) the same is released by the Required Holders, (y) all other obligations secured thereby are discharged, or (z) the security is released by the holders of all such other obligations, and in any case the Notes shall have the benefit, to the full extent that the holders may be entitled thereto under applicable law, of an equitable Lien on such property or assets equally and ratably securing the Notes; provided, however, that the provisions of this Section 10.3 shall not prevent or restrict the creation, incurring or existence of any of the following:

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

(b) purchase money mortgages or other Liens on real property (including leaseholds) and fixtures thereon, acquired by the Company or any such Subsidiary, to secure the purchase price of such property (or to secure Indebtedness incurred solely for the purpose of financing the acquisition of any such property to be subject to such mortgage or other Lien) and created contemporaneously with such acquisition or within 180 days thereafter, or mortgages or other Liens existing on any such property at the time of acquisition of such property by the Company or by such Subsidiary, whether or not assumed, or any mortgage or Lien on real property of such Subsidiary existing at the time of acquisition of such Subsidiary, provided that at the time of the acquisition of the property by the Company or a Restricted Subsidiary, or at the time of the acquisition of

the Restricted Subsidiary by the Company, as the case may be, (i) the principal amount of the Indebtedness secured by each such mortgage or Lien, plus the principal amount of all other Indebtedness secured by mortgages or Liens on the same property, shall not exceed 75% (100% in the case of Capitalized Leases) of the cost (which shall be deemed to include the amount of all Indebtedness secured by mortgages or other Liens, including existing Liens, on such property) of such property to the Company or any such Subsidiary, or 75% (100% in the case of Capitalized Leases) of the fair value thereof (without deduction of the Indebtedness secured by mortgages or Liens on such property) at the time of the acquisition thereof by the Company or such Subsidiary, whichever is the lesser, and (ii) every mortgage or Lien shall apply only to the property originally subject thereto and fixed improvements, accessions and attachments constructed or located thereon;

(c) refundings or extensions of the mortgages or Liens permitted in the foregoing clause (b) applying only to the same property theretofore subject to the same and fixed improvements, accessions and attachments constructed or located thereon and for amounts not exceeding the greater of (i) the principal amounts of the Indebtedness so refunded or extended at the time of the refunding or extension thereof or (ii) amounts of additional Indebtedness then permitted under all applicable provisions of Section 10.1, provided that the principal amount of such Indebtedness, plus the principal amount of all other Indebtedness secured by mortgages or Liens on the same property, shall not exceed 75% (100% in the case of Capitalized Leases) of the fair value thereof (without deduction of the Indebtedness secured by mortgages or Liens on such property) at the time of the refunding or extension;

(d) the owning or acquiring or agreeing to acquire machinery or equipment useful for the business of the Company or any such Subsidiary subject to or upon chattel mortgages or conditional sale agreements or other title retention agreements, provided that the principal amounts of the Indebtedness secured by such chattel mortgages, plus the aggregate amounts payable under such conditional sale agreements and other title retention agreements, shall not exceed the limitations set forth in Section 10.1(c);

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

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

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

(h) Liens for taxes not yet subject to penalties for non-payment or contested as permitted by Section 9.4, or survey exceptions, or encumbrances, easements or reservations of, or rights of others for, rights of way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real properties, which encumbrances, easements, reservations, rights and restrictions do not in the aggregate materially detract from the value of said properties or materially impair their use in the operation of the business of the Company or of such Subsidiary owning the same;

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

(j) any arrangement permitted by Section 10.9;

(k) inchoate Liens arising under ERISA to secure contingent liabilities under said Act; or

(l) Liens on accounts receivable and ancillary rights sold (or in which participating interests are sold) in compliance with all applicable requirements of Section 10.8,

provided, however, that the aggregate unpaid principal amount of all Indebtedness of the Company and its Restricted Subsidiaries secured by the mortgages or Liens of the types described in Sections 10.3(b), (c) and (d) shall not at any time exceed the amounts permitted pursuant to Sections 10.1(c) and 10.2(a)(iii)(B).

For purposes of this Agreement, the Company or a Restricted Subsidiary shall be deemed to be the owner of any property which it has acquired or holds subject to a conditional sale agreement, Capitalized Lease or other arrangement pursuant to which the property has been retained by or vested in some other person for security purposes and such retention or vesting shall constitute a Lien hereunder.

Section 10.4. Limitations on Guaranties. The Company will not itself, and will not permit any Restricted Subsidiary to, guarantee any dividend, or guarantee any obligation or Indebtedness, of any other Person other than (a) guaranties by the Company of obligations or Indebtedness of a Restricted Subsidiary which such Subsidiary shall be authorized to incur pursuant to the provisions of this Agreement, (b) guaranties incurred in the ordinary course of business of the Company or of a Restricted Subsidiary, (c) guaranties by the Company of

Indebtedness of Persons other than Restricted Subsidiaries if, and to the extent that, immediately after giving effect thereto, no Default or Event of Default would exist (including, without limitation, under Section 10.1(b), treating all such guaranties as Funded Indebtedness for purposes of such determination), (d) Subsidiary Guaranties and (e) Permitted Guaranties.

Section 10.5. Limitations on Investments. The Company will not itself, and will not permit any Restricted Subsidiary to, make any Investment, or any commitment to make any Investment, if, immediately after giving effect to any such proposed Investment, (a) the aggregate amount of all Investments, including Investments made prior to the Effective Date (all such Investments to be taken at the cost thereof at the time of making such Investment without allowance for any subsequent write-offs or appreciation or depreciation thereof, but less any amount repaid or recovered on account of capital or principal), shall exceed 30% of the Consolidated Tangible Net Worth of the Company and its Restricted Subsidiaries, or (b) Consolidated Funded Indebtedness shall exceed 55% of Consolidated Capitalization.

Section 10.6. Limitations on Dividends. The Company will not declare or pay, or set apart any funds for the payment of, any dividends (other than dividends payable in common stock of the Company) on any shares of capital stock of any class of the Company, or apply any of its funds, property or assets to, or set apart any funds, property or assets for, the purchase, redemption or other retirement of, or make any other distribution, by reduction of capital or otherwise, in respect of, any shares of capital stock of any class of the Company, unless, immediately after giving effect to such action (a) no Default or Event of Default would exist (including, without limitation, under Section 10.1(b) hereof), and (b) the sum of

(1) the amounts declared and paid or payable as, or set apart for, dividends (other than dividends paid or payable in common stock of the Company) on, or distributions (taken at cost to the Company or fair value at time of distribution, whichever is higher) in respect of, all shares of capital stock of all classes of the Company subsequent to December 31, 2001, and

(2) the excess, if any, of the amounts applied to, or set apart for, the purchase, redemption or retirement of all shares of capital stock of all classes of the Company subsequent to December 31, 2001, over the sum of (i) such amounts as shall have been received as the net cash proceeds of sales of shares of capital stock of all classes of the Company subsequent to December 31, 2001, plus (ii) the aggregate principal amount of all Indebtedness of the Company and its Subsidiaries converted into or exchanged for shares of capital stock of the Company subsequent to December 31, 2001,

would not be in excess of (x) \$30,000,000 plus (or minus in the case of a deficit) (y) the Consolidated Net Income of the Company and its Restricted Subsidiaries accrued subsequent to December 31, 2001. The foregoing provisions of this Section 10.6 to the contrary notwithstanding (i) the Company may pay any dividend within 90 days of the date of its declaration if, on the date of declaration, such dividend could properly have been paid within the limitations of this Section 10.6, and (ii) the Company may pay regular dividends on or make payments or purchases required to be made at the time when made by the terms of any sinking fund, purchase fund or mandatory redemption requirement in respect of any outstanding shares

of preferred stock of the Company originally issued for cash but all amounts so paid or applied pursuant to clauses (i) and (ii) above shall be included in any subsequent computation of restricted payments under this Section 10.6. The Company will not declare any dividend to be payable more than 90 days after the date of declaration thereof. The Company will not declare any dividend if an Event of Default shall have occurred and be continuing.

Section 10.7. Limitations on Dispositions of Stock or Indebtedness of Restricted Subsidiaries. The Company will not sell, assign, transfer or otherwise dispose of (except to a Wholly-Owned Restricted Subsidiary) any shares of capital stock of any class of any Restricted Subsidiary, or any other security of, or any Indebtedness owing to the Company by, any such Restricted Subsidiary, unless

(a) (i) all of the capital stock and other securities owned by the Company and its Restricted Subsidiaries, and the entire Indebtedness of such Restricted Subsidiary at the time owing to the Company and all its other Restricted Subsidiaries, shall be sold, assigned, transferred or otherwise disposed of, at the same time for cash, (ii) such Restricted Subsidiary shall not, at the time of such sale, assignment, transfer or other disposition, own either (x) any shares of capital stock of any class or any other security or any Indebtedness of any other Restricted Subsidiary of the Company which is not being simultaneously disposed of as permitted by this Section 10.7 or (y) any Indebtedness of the Company, and (iii) such sale, assignment or transfer is permitted by Section 10.8; or

(b) such sale, assignment, transfer or other disposition is to a Substantially-Owned Restricted Subsidiary for fair value and the Dilution of the Company's and its Restricted Subsidiaries' interests in the Subsidiary whose shares of capital stock, securities or Indebtedness are so sold, assigned, transferred or disposed of shall be treated as a sale of assets of the Company and shall be in compliance with the applicable requirements of Section 10.8.

Section 10.8. Limitations on Mergers, Consolidations and Sales of Assets. The Company will not (a) consolidate with or merge into any other Person, or permit any other Person to merge into the Company, unless (i) the surviving or continuing Person shall be either the Company or another solvent corporation organized under the laws of any state of the United States or the District of Columbia having long term unsecured debt which is rated "BBB" or better by Standard & Poor's Corporation or "Baa" or better by Moody's Investors Service, Inc., (ii) the due and punctual payment of the principal of and Make-Whole Amount, if any, and interest on all of the Notes according to their tenor, and this Agreement to be performed or observed by the Company are expressly assumed in writing by the surviving corporation and the surviving corporation shall furnish to the holders of the Notes an opinion of counsel satisfactory to such holders to the effect that the instrument of assumption has been duly authorized, executed and delivered and constitutes the legal, valid and binding contract and agreement of the surviving corporation enforceable in accordance with its terms, except as enforcement of such terms may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws affecting the enforcement of creditors' right generally and by general equitable principles, and (iii) no Event of Default shall exist at the time of, or result from, such merger or consolidation; or (b) sell, lease, transfer or otherwise dispose of all or any substantial part of its property and assets.

For the purposes of this Section 10.8 and Section 10.2(e), a sale, lease, transfer or disposition of properties or assets of the Company or a Restricted Subsidiary shall be deemed to be of a "substantial part" thereof only if the fair market value of such properties or assets, when added to the fair market value of all other properties or assets sold, leased, transferred or disposed of by the Company and its Restricted Subsidiaries, other than (x) in the ordinary course of business, or (y) in an Approved Transaction, during the 365 day period ending on the date of the consummation of such sale, lease, transfer or disposition exceeds 15% of the Consolidated Assets of the Company and its Restricted Subsidiaries determined as of the end of the Company's immediately preceding fiscal year.

As used herein, the term "Approved Transaction" shall mean any sale, lease, transfer or disposition of properties or assets to the extent that the Company shall, within 5 Business Days of such sale, lease, transfer or disposition, certify in writing to each holder of outstanding Notes that such transaction shall constitute an "Approved Transaction" for all purposes hereof.

The Company will, on a date not later than the 365th day after the occurrence of any Approved Transaction, apply an amount equal to the after tax proceeds of each Approved Transaction to either

(i) the purchase, acquisition or construction of capital assets which are useful and to be used in the surfactant, polymer, or specialty chemical business of the Company or a Restricted Subsidiary or a line of business reasonably related to the foregoing or any other line of business in which the Company and its Subsidiaries are engaged as of the Effective Date and described in the 10-K; or

(ii) the prepayment of unsecured Funded Indebtedness of the Company, including the concurrent prepayment of Notes pursuant to the provisions of Section 8.2(b) hereof pro rata with all other unsecured Funded Indebtedness then being prepaid;

provided, however, that to the extent that, at any time, the fair market value of all properties or assets which were the subject of Approved Transactions (an amount equal to the net after tax proceeds of which have not theretofore been applied as contemplated in clause (i) or clause (ii) above) exceeds 10% of the Consolidated Assets of the Company and its Restricted Subsidiaries, determined as of the end of the fiscal year of the Company immediately preceding any determination hereunder, the Company will, on a date not later than the 30th day after such determination, apply the net after tax proceeds of such excess Approved Transactions in the manner contemplated in clause (i) or clause (ii) above.

Section 10.9. Limitations on Sale-and-Leasebacks. The Company will not itself, and will not permit any Restricted Subsidiary to, enter into any arrangement, directly or indirectly, with any person whereby the Company or such Subsidiary shall sell or transfer any manufacturing plant or equipment owned or acquired by the Company or such Subsidiary and then or thereafter rent or lease, as lessee, such property or any part thereof, or other property which the Company or such Subsidiary, as the case may be, intends to use for substantially the same purpose or purposes as the property being sold or transferred, unless (a) the lease covering such property or

other property shall be for a term of not less than three years, and (b) the Company could then have outstanding unsecured Funded Indebtedness under Section 10.1(b) in an amount not less than the capitalized value of the rentals payable by the Company or such Subsidiary, as the case may be, under such lease determined in accordance with GAAP.

Section 10.10. Limitations on Rentals. The Company will not itself, and will not permit any Restricted Subsidiary to, enter into, as lessee, or be a party to, any lease of property if, immediately after giving effect to such lease, the aggregate amount of Rentals (excluding up to \$2,500,000 of tank car rentals incurred during such fiscal year and any Rentals payable under Capitalized Leases or under leases between the Company and any Wholly-Owned Restricted Subsidiary or between Wholly-Owned Restricted Subsidiaries) for any fiscal year of the Company payable by the Company and its Restricted Subsidiaries with respect to all such leases shall exceed 5% of Consolidated Tangible Net Worth of the Company and its Restricted Subsidiaries. For the purposes of this Section 10.10, the term "Rentals," with respect to any lease and for any period, shall mean the aggregate amount payable by the lessee under such lease for such period to the lessor.

Section 10.11. Transactions with Affiliates. Notwithstanding any other provision hereof, the Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into any transaction with any Affiliate of the Company (other than a Wholly-Owned Restricted Subsidiary) unless such transaction is in the ordinary course of, and pursuant to the reasonable requirements of, the Company's or such Restricted Subsidiary's business and is determined by the Board of Directors of the Company to be at least as favorable to the Company or such Restricted Subsidiary as generally obtainable at the time from persons other than Affiliates of the Company in a similar transaction.

Section 11. Events of Default.

An "Event of Default" shall exist if any of the following conditions or events shall occur and be continuing:

(a) the Company defaults in the payment of any principal or Make-Whole Amount, if any, on any Note when the same becomes due and payable, whether at maturity or at a date fixed for prepayment or by declaration or otherwise; or

(b) the Company defaults in the payment of any interest on any Note for more than five Business Days after the same becomes due and payable; or

(c) the Company defaults in the performance of or compliance with any term contained in Section 10; or

(d) the Company defaults in the performance of or compliance with any term contained herein (other than those referred to in paragraphs (a), (b) and (c) of this Section 11) and such default is not remedied within 30 days after the earlier of (i) a Responsible Officer obtaining actual knowledge of such default and (ii) the Company receiving written notice of such default from any holder of a Note (any such written

notice to be identified as a "notice of default" and to refer specifically to this paragraph (d) of Section 11); or

(e) any representation or warranty made in writing by or on behalf of the Company or any Subsidiary Guarantor or by any officer of the Company or any Subsidiary Guarantor in this Agreement, any Subsidiary Guaranty or in any writing furnished in connection with the transactions contemplated hereby proves to have been false or incorrect in any material respect on the date as of which made; or

(f) (i) the Company or any Restricted Subsidiary is in default (as principal or as guarantor or other surety) in the payment of any principal of or premium or make-whole amount or interest on any Indebtedness that is outstanding in an aggregate principal amount of at least \$2,500,000 beyond any period of grace provided with respect thereto, or (ii) the Company or any Restricted Subsidiary is in default in the performance of or compliance with any term of any evidence of any Indebtedness in an aggregate outstanding principal amount of at least \$2,500,000 or of any mortgage, indenture or other agreement relating thereto or any other condition exists, and as a consequence of such default or condition such Indebtedness has become, or has been declared (or one or more Persons are entitled to declare such Indebtedness to be), due and payable before its stated maturity or before its regularly scheduled dates of payment, or (iii) as a consequence of the occurrence or continuation of any event or condition (other than the passage of time or the right of the holder of Indebtedness to convert such Indebtedness into equity interests), (x) the Company or any Restricted Subsidiary has become obligated to purchase or repay Indebtedness before its regular maturity or before its regularly scheduled dates of payment in an aggregate outstanding principal amount of at least \$2,500,000, or (y) one or more Persons have the right to require the Company or any Restricted Subsidiary so to purchase or repay such Indebtedness; or

(g) the Company or any Restricted Subsidiary (i) is generally not paying, or admits in writing its inability to pay, its debts as they become due, (ii) files, or consents by answer or otherwise to the filing against it of, a petition for relief or reorganization or arrangement or any other petition in bankruptcy, for liquidation or to take advantage of any bankruptcy, insolvency, reorganization, moratorium or other similar law of any jurisdiction, (iii) makes an assignment for the benefit of its creditors, (iv) consents to the appointment of a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, (v) is adjudicated as insolvent or to be liquidated, or (vi) takes corporate action for the purpose of any of the foregoing; or

(h) a court or governmental authority of competent jurisdiction enters an order appointing, without consent by the Company or any of its Restricted Subsidiaries, a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, or constituting an order for relief or approving a petition for relief or reorganization or any other petition in bankruptcy or for liquidation or to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding-up or liquidation of the Company or any of its

Restricted Subsidiaries, or any such petition shall be filed against the Company or any of its Restricted Subsidiaries and such petition shall not be dismissed within 60 days; or

(i) a final judgment or judgments for the payment of money in excess of \$1,000,000 are rendered against one or more of the Company and its Restricted Subsidiaries and which judgments are not, within 30 days after entry thereof, bonded, discharged or stayed pending appeal or are not discharged within 60 days after the expiration of such stay or appeal; or

(j) a Change of Control shall occur and continue for more than 40 days or a default shall occur in giving notice of any Change of Control pursuant to the provisions of Section 7.1(h); or

(k) any Subsidiary Guaranty shall cease to be in full force and effect for any reason whatsoever (other than with the prior consent of the Required Holders), including, without limitation, a determination by a Governmental Authority of competent jurisdiction that either such guaranty is invalid, void or unenforceable or a Subsidiary Guarantor shall contest or deny in writing the validity or enforceability of any of its obligations under any Subsidiary Guaranty; or

(l) if (i) any Plan shall fail to satisfy the minimum funding standards of ERISA or the Code for any plan year or part thereof or a waiver of such standards or extension of any amortization period is sought or granted under Section 412 of the Code, (ii) a notice of intent to terminate any Plan shall have been or is reasonably expected to be filed with the PBGC or the PBGC shall have instituted proceedings under ERISA Section 4042 to terminate or appoint a trustee to administer any Plan or the PBGC shall have notified the Company or any ERISA Affiliate that a Plan may become a subject of any such proceedings, (iii) the aggregate "amount of unfunded benefit liabilities" (within the meaning of Section 4001(a)(18) of ERISA) under all Plans, determined in accordance with Title IV of ERISA, shall exceed \$5,000,000, (iv) the Company or any ERISA Affiliate shall have incurred or is reasonably expected to incur any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, (v) the Company or any ERISA Affiliate withdraws from any Multiemployer Plan, or (vi) the Company or any Subsidiary establishes or amends any employee welfare benefit plan that provides post-employment welfare benefits in a manner that would increase the liability of the Company or any Subsidiary thereunder; and any such event or events described in clauses (i) through (vi) above, either individually or together with any other such event or events, could reasonably be expected to have a Material Adverse Effect.

As used in Section 11(1), the terms "employee benefit plan" and "employee welfare benefit plan" shall have the respective meanings assigned to such terms in Section 3 of ERISA.

Section 12. Remedies On Default, Etc.

Section 12.1. Acceleration. (a) If an Event of Default with respect to the Company described in paragraph (g) or (h) of Section 11 (other than an Event of Default described in clause (i) of paragraph (g) or described in clause (vi) of paragraph (g) by virtue of the fact that such clause encompasses clause (i) of paragraph (g)) has occurred, all the Notes then outstanding shall automatically become immediately due and payable.

(b) If any Event of Default described in paragraph (a) of Section 11 has occurred and is continuing, any holder or holders of 25% or more in principal amount of the Notes at the time outstanding may, and if any other Event of Default has occurred and is continuing, the Required Holders may at any time at its or their option, by notice or notices to the Company, declare all the Notes then outstanding to be immediately due and payable.

(c) In addition to the collective remedies of the holders of the Notes in clause (b), if any Event of Default described in paragraph (a) or (b) of Section 11 has occurred and is continuing, any holder of Notes at the time outstanding affected by such Event of Default may at any time, at its option, by notice or notices to the Company, declare all the Notes held by it to be immediately due and payable.

Upon any Note's becoming due and payable under this Section 12.1, whether automatically or by declaration, such Note will forthwith mature and the entire unpaid principal amount of such Note, plus (x) all accrued and unpaid interest thereon and (y) the Make-Whole Amount determined in respect of such principal amount (to the full extent permitted by applicable law), shall all be immediately due and payable, in each and every case without presentment, demand, protest or further notice, all of which are hereby waived. The Company acknowledges, and the parties hereto agree, that each holder of a Note has the right to maintain its investment in the Notes free from repayment by the Company (except as herein specifically provided for), and that the provision for payment of a Make-Whole Amount by the Company in the event that the Notes are prepaid or are accelerated as a result of an Event of Default, is intended to provide compensation for the deprivation of such right under such circumstances.

Section 12.2. Other Remedies. If any Default or Event of Default has occurred and is continuing, and irrespective of whether any Notes have become or have been declared immediately due and payable under Section 12.1, the holder of any Note at the time outstanding may proceed to protect and enforce the rights of such holder by an action at law, suit in equity or other appropriate proceeding, whether for the specific performance of any agreement contained herein or in any Note, or for an injunction against a violation of any of the terms hereof or thereof, or in aid of the exercise of any power granted hereby or thereby or by law or otherwise.

Section 12.3. Rescission. At any time after any Notes have been declared due and payable pursuant to clause (b) or (c) of Section 12.1, the Required Holders then outstanding, by written notice to the Company, may rescind and annul any such declaration and its consequences if (a) the Company has paid all overdue interest on the Notes, all principal of and Make-Whole Amount, if any, on any Notes that are due and payable and are unpaid other than by reason of such declaration, and all interest on such overdue principal and Make-Whole Amount, if any, and

(to the extent permitted by applicable law) any overdue interest in respect of the Notes, at the Default Rate, (b) all Events of Default and Defaults, other than non-payment of amounts that have become due solely by reason of such declaration, have been cured or have been waived pursuant to Section 17, and (c) no judgment or decree has been entered for the payment of any monies due pursuant hereto or to the Notes. No rescission and annulment under this Section 12.3 will extend to or affect any subsequent Event of Default or Default or impair any right consequent thereon.

Section 12.4. No Waivers or Election of Remedies, Expenses, Etc. No course of dealing and no delay on the part of any holder of any Note in exercising any right, power or remedy shall operate as a waiver thereof or otherwise prejudice such holder's rights, powers or remedies. No right, power or remedy conferred by this Agreement or by any Note upon any holder thereof shall be exclusive of any other right, power or remedy referred to herein or therein or now or hereafter available at law, in equity, by statute or otherwise. Without limiting the obligations of the Company under Section 15, the Company will pay to the holder of each Note on demand such further amount as shall be sufficient to cover all costs and expenses of such holder incurred in any enforcement or collection under this Section 12, including, without limitation, reasonable attorneys' fees, expenses and disbursements.

Section 13. Registration; Exchange; Substitution of Notes.

Section 13.1. Registration of Notes. The Company shall keep at its principal executive office a register for the registration and registration of transfers of Notes. The name and address of each holder of one or more Notes, each transfer thereof and the name and address of each transferee of one or more Notes shall be registered in such register. Prior to due presentment for registration of transfer, the Person in whose name any Note shall be registered shall be deemed and treated as the owner and holder thereof for all purposes hereof, and the Company shall not be affected by any notice or knowledge to the contrary. The Company shall give to any holder of a Note that is an Institutional Investor promptly upon request therefor, a complete and correct copy of the names and addresses of all registered holders of Notes.

Section 13.2. Transfer and Exchange of Notes. Upon surrender of any Note at the principal executive office of the Company for registration of transfer or exchange (and in the case of a surrender for registration of transfer, duly endorsed or accompanied by a written instrument of transfer duly executed by the registered holder of such Note or its attorney duly authorized in writing and accompanied by the address for notices of each transferee of such Note or part thereof), the Company shall execute and deliver, at the Company's expense (except as provided below), one or more new Notes (as requested by the holder thereof) in exchange therefor, in an aggregate principal amount equal to the unpaid principal amount of the surrendered Note. Each such new Note shall be payable to such Person as such holder may request and shall be substantially in the form of Exhibit 1. Each such new Note shall be dated and bear interest from the date to which interest shall have been paid on the surrendered Note or dated the date of the surrendered Note if no interest shall have been paid thereon. The Company may require payment of a sum sufficient to cover any stamp tax or governmental charge imposed in respect of any such transfer of Notes. Notes shall not be transferred in denominations of less than \$100,000, provided that if necessary to enable the registration of transfer by a holder of its

entire holding of Notes, one Note may be in a denomination of less than \$100,000. Any transferee of a Note, or purchaser of a participation therein, shall, by its acceptance of such Note be deemed to make the same representations to the Company regarding the Note or participation as such Noteholder has made pursuant to Section 6.2, provided that such entity may (in reliance upon information provided by the Company, which shall not be unreasonably withheld) make a representation to the effect that the purchase by such entity of any Note will not constitute a non-exempt prohibited transaction under Section 406(a) of ERISA.

Section 13.3. Replacement of Notes. Upon receipt by the Company of evidence reasonably satisfactory to it of the ownership of and the loss, theft, destruction or mutilation of any Note (which evidence shall be, in the case of an Institutional Investor, notice from such Institutional Investor of such ownership and such loss, theft, destruction or mutilation), and

(a) in the case of loss, theft or destruction, of indemnity reasonably satisfactory to it (provided that if the holder of such Note is, or is a nominee for, an original Noteholder or another holder of a Note with a minimum net worth of at least \$15,000,000, such Person's own unsecured agreement of indemnity shall be deemed to be satisfactory), or

(b) in the case of mutilation, upon surrender and cancellation thereof,

the Company at its own expense shall execute and deliver, in lieu thereof, a new Note, dated and bearing interest from the date to which interest shall have been paid on such lost, stolen, destroyed or mutilated Note or dated the date of such lost, stolen, destroyed or mutilated Note if no interest shall have been paid thereon.

Section 14. Payments On Notes.

Section 14.1. Place of Payment. Subject to Section 14.2, payments of principal, Make-Whole Amount, if any, and interest becoming due and payable on the Notes shall be made in Northfield, Illinois, at the principal office of the Company in such jurisdiction. The Company may at any time, by notice to each holder of a Note, change the place of payment of the Notes so long as such place of payment shall be either the principal office of the Company in such jurisdiction or the principal office of a bank or trust company in such jurisdiction.

Section 14.2. Home Office Payment. So long as any Noteholder or such Noteholder's nominee shall be the holder of any Note, and notwithstanding anything contained in Section 14.1 or in such Note to the contrary, the Company will pay all sums becoming due on such Note for principal, Make-Whole Amount, if any, and interest by the method and at the address specified for such purpose below such Noteholder's signature at the foot of this Agreement, or by such other method or at such other address as such Noteholder shall have from time to time specified to the Company in writing for such purpose, without the presentation or surrender of such Note or the making of any notation thereon, except that upon written request of the Company made concurrently with or reasonably promptly after payment or prepayment in full of any Note, such Noteholder shall surrender such Note for cancellation, reasonably promptly after any such request, to the Company at its principal executive office or at the place of payment most recently

designated by the Company pursuant to Section 14.1. The Company will afford the benefits of this Section 14.2 to any Institutional Investor that is the direct or indirect transferee of any Note purchased by any Noteholder under this Agreement and that has made the same agreement relating to such Note as such Noteholder has made in this Section 14.2.

Section 15. Expenses, Etc.

Section 15.1. Transaction Expenses. Whether or not the transactions contemplated hereby are consummated, the Company will pay all costs and expenses (including reasonable attorneys' fees of a special counsel and, if reasonably required, local or other counsel) incurred by each Noteholder or holder of a Note in connection with such transactions and in connection with any amendments, waivers or consents under or in respect of this Agreement or the Notes (whether or not such amendment, waiver or consent becomes effective), including, without limitation: (a) the costs and expenses incurred in enforcing or defending (or determining whether or how to enforce or defend) any rights under this Agreement or the Notes or in responding to any subpoena or other legal process or informal investigative demand issued in connection with this Agreement or the Notes, or by reason of being a holder of any Note, and (b) the costs and expenses, including financial advisors' fees, incurred in connection with the insolvency or bankruptcy of the Company or any Subsidiary or in connection with any work-out or restructuring of the transactions contemplated hereby and by the Notes. The Company will pay, and will save each Noteholder and each other holder of a Note harmless from, all claims in respect of any fees, costs or expenses, if any, of brokers and finders (other than those retained by such Noteholder or holder).

Section 15.2. Survival. The obligations of the Company under this Section 15 will survive the payment or transfer of any Note, the enforcement, amendment or waiver of any provision of this Agreement or the Notes, and the termination of this Agreement.

Section 16. Survival of Representations and Warranties; Entire Agreement.

All representations and warranties contained herein shall survive the execution and delivery of this Agreement and the Notes, the purchase or transfer by any Noteholder of any Note or portion thereof or interest therein and the payment of any Note, and may be relied upon by any subsequent holder of a Note, regardless of any investigation made at any time by or on behalf of such Noteholder or any other holder of a Note. All statements contained in any certificate or other instrument delivered by or on behalf of the Company pursuant to this Agreement shall be deemed representations and warranties of the Company under this Agreement made as of the date given and qualified to the extent provided therein. Subject to the preceding sentence, this Agreement and the Notes embody the entire agreement and understanding between each Noteholder and the Company and supersede all prior agreements and understandings relating to the subject matter hereof.

Section 17. Amendment and Waiver.

Section 17.1. Requirements. This Agreement and the Notes may be amended, and the observance of any term hereof or of the Notes may be waived (either retroactively or prospectively), with (and only with) the written consent of the Company and the Required Holders, except that (a) no amendment or waiver of any of the provisions of Section 1, 2, 3, 4, 5, 6 or 21 hereof, or any defined term (as it is used therein), will be effective as to any Noteholder unless consented to by such Noteholder in writing, and (b) no such amendment or waiver may, without the written consent of the holder of each Note at the time outstanding affected thereby, (i) subject to the provisions of Section 12 relating to acceleration or rescission, change the amount or time of any prepayment or payment of principal of, or reduce the rate or change the time of payment or method of computation of interest or of the Make-Whole Amount on, the Notes, (ii) change the percentage of the principal amount of the Notes the holders of which are required to consent to any such amendment or waiver, (iii) amend any of Section 8, 11(a), 11(b), 12, 17 or 20 or (iv) give to any Note any preference over any other Note.

Section 17.2. Solicitation of Holders of Notes.

(a) Solicitation. The Company will provide each holder of the Notes (irrespective of the amount of Notes then owned by it) with sufficient information, sufficiently far in advance of the date a decision is required, to enable such holder to make an informed and considered decision with respect to any proposed amendment, waiver or consent in respect of any of the provisions hereof or of the Notes. The Company will deliver executed or true and correct copies of each amendment, waiver or consent effected pursuant to the provisions of this Section 17 to each holder of outstanding Notes promptly following the date on which it is executed and delivered by, or receives the consent or approval of, the requisite holders of Notes.

(b) Payment. The Company will not directly or indirectly pay or cause to be paid any remuneration, whether by way of supplemental or additional interest, fee or otherwise, or grant any security, to any holder of Notes as consideration for or as an inducement to the entering into by any holder of Notes of any waiver or amendment of any of the terms and provisions hereof or of the Notes unless such remuneration is concurrently paid, or security is concurrently granted, on the same terms, ratably to each holder of Notes then outstanding whether or not such holder consented to such waiver or amendment.

Section 17.3. Binding Effect, Etc. Any amendment or waiver consented to as provided in this Section 17 applies equally to all holders of Notes and is binding upon them and upon each future holder of any Note and upon the Company without regard to whether such Note has been marked to indicate such amendment or waiver. No such amendment or waiver will extend to or affect any obligation, covenant, agreement, Default or Event of Default not expressly amended or waived or impair any right consequent thereon. No course of dealing between the Company and the holder of any Note nor any delay in exercising any rights hereunder or under any Note shall operate as a waiver of any rights of any holder of such Note. As used herein, the term "this Agreement" and references thereto shall mean this Agreement as it may from time to time be amended or supplemented.

Section 17.4. Notes Held by Company, Etc. Solely for the purpose of determining whether the holders of the requisite percentage of the aggregate principal amount of Notes then outstanding approved or consented to any amendment, waiver or consent to be given under this Agreement or the Notes, or have directed the taking of any action provided herein or in the Notes to be taken upon the direction of the holders of a specified percentage of the aggregate principal amount of Notes then outstanding, Notes directly or indirectly owned by the Company or any of its Affiliates shall be deemed not to be outstanding.

Section 18. Notices.

All notices and communications provided for hereunder shall be in writing and sent (a) by telefacsimile if the sender on the same day sends a confirming copy of such notice by a recognized overnight delivery service (charges prepaid), or (b) by registered or certified mail with return receipt requested (postage prepaid), or (c) by a recognized overnight delivery service (with charges prepaid). Any such notice must be sent:

(i) if to a Noteholder or such Noteholder's nominee, to such Noteholder or such Noteholder's nominee at the address specified for such communications below such Noteholder's signature at the foot of this Agreement, or at such other address as such Noteholder or such Noteholder's nominee shall have specified to the Company in writing,

(ii) if to any other holder of any Note, to such holder at such address as such other holder shall have specified to the Company in writing, or

(iii) if to the Company, to the Company at its address set forth at the beginning hereof to the attention of Chief Financial Officer with a copy to the Company's General Counsel, or at such other address as the Company shall have specified to the holder of each Note in writing.

Notices under this Section 18 will be deemed given only when actually received.

Section 19. Reproduction of Documents.

This Agreement and all documents relating thereto, including, without limitation, (a) consents, waivers and modifications that may hereafter be executed, (b) documents received by each Noteholder on the Effective Date (except the Notes themselves), and (c) financial statements, certificates and other information previously or hereafter furnished to each Noteholder, may be reproduced by such Noteholder by any photographic, photostatic, microfilm, microcard, miniature photographic or other similar process and such Noteholder may destroy any original document so reproduced. The Company agrees and stipulates that, to the extent permitted by applicable law, any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made by such Noteholder in the regular course of business) and any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence. This Section 19 shall not prohibit the Company or any

other holder of Notes from contesting any such reproduction to the same extent that it could contest the original, or from introducing evidence to demonstrate the inaccuracy of any such reproduction.

Section 20. Confidential Information.

For the purposes of this Section 20, "Confidential Information" means information delivered to any Noteholder by or on behalf of the Company or any Subsidiary in connection with the transactions contemplated by or otherwise pursuant to this Agreement that is proprietary in nature and that was clearly marked or labeled or otherwise adequately identified when received by such Noteholder as being confidential information of the Company or such Subsidiary, provided that such term does not include information that (a) was publicly known or otherwise known to such Noteholder prior to the time of such disclosure, (b) subsequently becomes publicly known through no act or omission by such Noteholder or any Person acting on such Noteholder's behalf, (c) otherwise becomes known to such Noteholder other than through disclosure by the Company or any Subsidiary or (d) constitutes financial statements delivered to such Noteholder under Section 7.1 that are otherwise publicly available. Each Noteholder will maintain the confidentiality of such Confidential Information in accordance with procedures adopted by such Noteholder in good faith to protect confidential information of third parties delivered to such Noteholder, provided that such Noteholder may deliver or disclose Confidential Information to (i) such Noteholder's directors, trustees, officers, employees, agents, attorneys and affiliates (to the extent such disclosure reasonably relates to the administration of the investment represented by such Noteholder's Notes), (ii) such Noteholder's financial advisors and other professional advisors who agree to hold confidential the Confidential Information substantially in accordance with the terms of this Section 20, (iii) any other holder of any Note, (iv) any Institutional Investor to which such Noteholder sells or offers to sell such Note or any part thereof or any participation therein (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 20), (v) any Person from which such Noteholder offers to purchase any security of the Company (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 20), (vi) any federal or state regulatory authority having jurisdiction over such Noteholder, (vii) the National Association of Insurance Commissioners or any similar organization, or any nationally recognized rating agency that requires access to information about such Noteholder's investment portfolio, or (viii) any other Person to which such delivery or disclosure may be necessary or appropriate (w) to effect compliance with any law, rule, regulation or order applicable to such Noteholder, (x) in response to any subpoena or other legal process, (y) in connection with any litigation to which such Noteholder is a party or (z) if an Event of Default has occurred and is continuing, to the extent such Noteholder may reasonably determine such delivery and disclosure to be necessary or appropriate in the enforcement or for the protection of the rights and remedies under such Noteholder's Notes and this Agreement. Each holder of a Note, by its acceptance of a Note, will be deemed to have agreed to be bound by and to be entitled to the benefits of this Section 20 as though it were a party to this Agreement. On reasonable request by the Company in connection with the delivery to any holder of a Note of information required to be delivered to such holder under this Agreement or requested by such holder (other than a holder that is a party to this Agreement or

its nominee or any other holder that shall have previously delivered such a confirmation), such holder will confirm in writing that it is bound by the provisions of this Section 20.

Section 21. Substitution of Noteholder.

Each Noteholder shall have the right to substitute any one of such Noteholder's Affiliates as the purchaser of the Notes that such Noteholder has agreed to purchase hereunder, by written notice to the Company, which notice shall be signed by both such Noteholder and such Noteholder's Affiliate, shall contain such Affiliate's agreement to be bound by this Agreement and shall contain a confirmation by such Affiliate of the accuracy with respect to it of the representations set forth in Section 6. Upon receipt of such notice, wherever the word "Noteholder" is used in this Agreement (other than in this Section 21), such word shall be deemed to refer to such Affiliate in lieu of such Noteholder. In the event that such Affiliate is so substituted as a purchaser hereunder and such Affiliate thereafter transfers to such Noteholder all of the Notes then held by such Affiliate, upon receipt by the Company of notice of such transfer, wherever the word "Noteholder" is used in this Agreement (other than in this Section 21), such word shall no longer be deemed to refer to such Affiliate, but shall refer to such Noteholder, and such Noteholder shall have all the rights of an original holder of the Notes under this Agreement.

Section 22. Miscellaneous.

Section 22.1. Successors and Assigns. All covenants and other agreements contained in this Agreement by or on behalf of any of the parties hereto bind and inure to the benefit of their respective successors and assigns (including, without limitation, any subsequent holder of a Note) whether so expressed or not. The Company may not assign any of its rights hereunder without the written consent of the holders of the Notes.

Section 22.2. Payments Due on Non-Business Days. Anything in this Agreement or the Notes to the contrary notwithstanding, any payment of principal of or Make-Whole Amount or interest on any Note that is due on a date other than a Business Day shall be made on the next succeeding Business Day without including the additional days elapsed in the computation of the interest payable on such next succeeding Business Day.

Section 22.3. Severability. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall (to the full extent permitted by law) not invalidate or render unenforceable such provision in any other jurisdiction.

Section 22.4. Construction. Each covenant contained herein shall be construed (absent express provision to the contrary) as being independent of each other covenant contained herein, so that compliance with any one covenant shall not (absent such an express contrary provision) be deemed to excuse compliance with any other covenant. Where any provision herein refers to action to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such Person.

Section 22.5. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies hereof, each signed by fewer than all, but together signed by all, of the parties hereto.

Section 22.6. Governing Law. This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of Illinois excluding choice-of-law principles of the law of such State that would require the application of the laws of a jurisdiction other than such State.

* * * * *

The execution hereof by the Noteholders shall constitute a contract among the Company and the Noteholders for the uses and purposes hereinabove set forth.

Very truly yours,
Stepan Company

By _____
Name:
Title:

The foregoing is hereby agreed to as of the date thereof.

The Northwestern Mutual Life Insurance Company
By _____
Name:
Its Authorized Representative

Connecticut General Life Insurance Company
By: CIGNA Investments, Inc. (authorized agent)

By _____
Name:
Title:

Principal Amount of Notes
to be Exchanged

THE NORTHWESTERN MUTUAL LIFE
INSURANCE COMPANY
720 East Wisconsin Avenue
Milwaukee, Wisconsin 53202
Attention: Securities Department
Telecopier Number: (414) 665-7124

\$20,000,000

Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as "Stepan Company, 6.59% Amended and Restated Senior Notes due October 1, 2013, PPN 858586 F# 2, principal, premium or interest") to:

Bankers Trust Company
ABA #021-001-033
16 Wall Street
Insurance Unit, 4th Floor
New York, New York 10005

for credit to: The Northwestern Mutual Life Insurance Company
Account Number 00-000-027

Notices

All notices and communications to be addressed as first provided above, except notices with respect to payments and written confirmation of each such payment to be addressed, Attention: Investment Operations, Fax Number: (414) 625-6998.

Name of Nominee in which Notes are to be issued: None

Taxpayer I.D. Number: 39-0509570

Schedule A
(to Amended and Restated Note Agreement)

Principal Amount of Notes
to be Purchased

CONNECTICUT GENERAL LIFE INSURANCE COMPANY
c/o CIGNA Retirement & Investment Services
280 Trumbull Street
Hartford, Connecticut 06103
Attention: Private and Alternative Investments, H16B
Fax: 860-534-7203

\$10,000,000

Payments

All payments on or in respect of the Notes to be by Federal Funds Wire Transfer
to:

J. P. Morgan Chase Bank
BNF=CIGNA Private Placements/AC=9009001802
ABA #021000021
OBI=Stepan Company, 6.59% Senior Notes due October 2013, PPN 858586 F# 2,
and application (as among principal, premium and interest of the payment
being made); contact name and phone.

Address for Notices Related to Payments:

CIG & Co.
c/o CIGNA Investments, Inc.
Attention: Securities Processing, H05P
280 Trumbull Street
Hartford, Connecticut 06103

CIG & Co.
c/o CIGNA Retirement & Investment Services
Attention: Private and Alternative Investments, H16B
280 Trumbull Street
Hartford, Connecticut 06103
Fax: 860-534-7203

with a copy to:

J. P. Morgan Chase Bank
Private Placement Servicing
P. O. Box 1508
Bowling Green Station
New York, New York 10081
Attention: CIGNA Private Placements
Fax: 212-552-3107/1005

Address for All Other Notices:

CIG & Co.
c/o CIGNA Retirement & Investment Services
Attention: Private and Alternative Investments, H16B
280 Trumbull Street
Hartford, Connecticut 06103
Fax: 860-534-7203

Name of Nominee in which Notes are to be issued: CIG & Co.

Taxpayer I.D. Number for CIG & Co.: 13-3574027

DEFINED TERMS

Where the character or amount of any asset or liability or item of income or expense is required to be determined or any consolidation or other accounting computation is required to be made for the purposes of this Agreement, the same shall be done in accordance with GAAP, to the extent applicable, except where such principles are inconsistent with the express requirements of this Agreement.

Where any provision in this Agreement refers to action to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether the action in question is taken directly or indirectly by such Person.

As used herein, the following terms have the respective meanings set forth below or set forth in the Section hereof following such term:

"Affiliate" means, at any time, and with respect to any Person, (a) any other Person that at such time directly or indirectly through one or more intermediaries Controls, or is Controlled by, or is under common Control with, such first Person, and (b) any Person beneficially owning or holding, directly or indirectly, 10% or more of any class of voting or equity interests of the Company or any Subsidiary or any corporation of which the Company and its Subsidiaries beneficially own or hold, in the aggregate, directly or indirectly, 10% or more of any class of voting or equity interests. As used in this definition, "Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. Unless the context otherwise clearly requires, any reference to an "Affiliate" is a reference to an Affiliate of the Company.

"Assets" of any corporation means, at any date, the gross book value as shown by the books of such corporation in accordance with GAAP of all its property, whether real, personal or mixed (exclusive of franchises, licenses, permits, patents, patent applications, copyrights, trademarks, trade names, good will, experimental or organizational expense, leasehold improvements not recoverable at the expiration of a lease, unamortized debt discount and expense, deferred charges and other intangibles and treasury stock), less the sum (without duplication) of (a) all reserves for depreciation, depletion, obsolescence and amortization of its properties (other than properties excluded as hereinabove provided) as shown by the books of such corporation and all other proper reserves which in accordance with GAAP should be set aside in connection with the business conducted by such corporation, other than reserves for contingencies not allocated to any particular purpose; and (b) the amount of any write-up subsequent to December 31, 1986 in the book value of any asset owned by such corporation on such date resulting from the revaluation thereof subsequent to such date, or any write-up in excess of the cost of any asset acquired by such corporation subsequent to such date.

"Business Day" means (a) for the purposes of Section 8.7 only, any day other than a Saturday, a Sunday or a day on which commercial banks in New York City are required or authorized to be closed, and (b) for the purposes of any other provision of this Agreement, any

Schedule B
(to Amended and Restated Note Agreement)

day other than a Saturday, a Sunday or a day on which commercial banks in Chicago, Illinois, or New York, New York are required or authorized to be closed.

"Capitalized Lease" means any lease which, in accordance with GAAP, is of such a nature that payment obligations of the lessee thereunder shall have been or should be capitalized and shown as liabilities (other than current Indebtedness) upon the balance sheet of such lessee.

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

"Code" means the Internal Revenue Code of 1986, as amended from time to time, and the rules and regulations promulgated thereunder from time to time.

"Company" means Stepan Company, a Delaware corporation.

"Confidential Information" is defined in Section 20.

"Consolidated," when used in respect of the Assets, Current Indebtedness and Funded Indebtedness of the Company and its Restricted Subsidiaries means the aggregate of the assets, Current Assets, Current Indebtedness, Funded Indebtedness, respectively, of the Company and its Restricted Subsidiaries, after eliminating all intercompany items and all other items which should be eliminated in accordance with GAAP; provided, however, in determining Consolidated Assets, there shall not be included therein any amount on account of the excess of (i) the cost of acquisition of shares of any Subsidiary over the book value of the assets of such Subsidiary attributable to such shares on the books of such Subsidiary at the date of acquisition of such shares, or (ii) the book value of the assets of such Subsidiary attributable to such shares at the date of such acquisition over the cost of acquisition of such shares; provided, further, in determining Consolidated Funded Indebtedness, there shall not be included therein any duplication of Indebtedness that may arise from the guaranty by a Restricted Subsidiary of Indebtedness of the Company which constitutes Specified Subsidiary Indebtedness.

"Consolidated Capitalization" means the sum of (i) Consolidated Funded Indebtedness of the Company and its Restricted Subsidiaries, plus (ii) Consolidated Tangible Net Worth.

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

"Consolidated Net Income" means the aggregate of the net income of the Company and its Restricted Subsidiaries, after eliminating all intercompany items and portions of income properly attributable to minority interest in the stock of such Subsidiaries, all computed in accordance with GAAP.

"Consolidated Tangible Net Worth" means the aggregate of the Tangible Net Worth of the Company and its Restricted Subsidiaries, consolidated in accordance with GAAP.

"corporation" shall include corporations, joint stock companies and business trusts.

"Current Indebtedness" means all Indebtedness other than Funded Indebtedness, and, without limitation, shall include (a) all Indebtedness maturing on demand or within one year after the date as of which such determination is made, (b) final maturities and prepayments of Indebtedness and sinking fund payments (including, with respect to the Notes, not only (i) fixed prepayments, but also (ii) other prepayments on and after the date of notice of prepayment thereof pursuant to Sections 8.2 and 8.3) required to be made in respect of any Indebtedness within one year after said date, and (c) all other items (including taxes accrued as estimated) which in accordance with GAAP would be included as current liabilities.

"Default" means an event or condition the occurrence or existence of which would, with the lapse of time or the giving of notice or both, become an Event of Default.

"Default Rate" means that rate of interest that is the greater of (i) 2.00% per annum above the rate of interest stated in clause (a) of the first paragraph of the Notes or (ii) the rate of interest publicly announced by Bank One, N.A. in Chicago, Illinois as its "base" or "prime" rate.

"Definitive Agreement" means any binding, definitive written agreement with respect to any proposed transaction, event or series of transactions or events which, when fully performed, is reasonably likely to result in a Change of Control, excluding in all cases, letters of intent, proposals or similar non-definitive expressions of interest.

"Dilution" means (a) any decrease in the percentage of capital stock and other equity securities of a Restricted Subsidiary beneficially owned, directly or indirectly, by the Company and its Wholly-Owned Subsidiaries resulting from a sale, assignment, transfer or other disposition of capital stock or equity securities of a Restricted Subsidiary or (b) any increase in the minority interests in the capital stock and equity securities of a Restricted Subsidiary as a result of the issuance of capital stock and equity securities by a Restricted Subsidiary to a Person other than the Company or a Wholly-Owned Restricted Subsidiary. For purposes of determining compliance with Section 10.8, the value of any "Dilution" shall be an amount equal to the fair value of that portion of the assets of the relevant Subsidiary determined by multiplying the percentage of the capital stock and other equity securities of such Subsidiary constituting a Dilution by the fair value of all assets of such Subsidiary (assuming, in making such calculations, that all securities convertible into capital stock are so converted and giving full effect to all transactions that would occur or be required in connection with such conversion), determined at the time of the Dilution in good faith by the Company and subject to the approval of the Required Holders (which shall not be unreasonably withheld or delayed).

"Effective Date" is defined in Section 3.1.

"Environmental Laws" means any and all applicable Federal, state, local, and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions,

grants, franchises, licenses, agreements or governmental restrictions relating to public health, safety or the environment, including, without limitation, relating to releases, discharges, emissions or disposals to air, water, land or ground water, to the withdrawal or use of ground water, to the use, handling or disposal of polychlorinated biphenyls (PCB's), asbestos or urea formaldehyde, to the treatment, storage, disposal or management of hazardous substances (including, without limitation, petroleum, its derivatives, by-products or other hydrocarbons), to exposure to toxic, hazardous or other controlled, prohibited or regulated substances, or to the transportation, storage, disposal, management or release of gases or liquid substances.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

"ERISA Affiliate" means any trade or business (whether or not incorporated) that is treated as a single employer together with the Company under Section 414 of the Code.

"Event of Default" is defined in Section 11.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Fixed Payment Date" is defined in Section 8.1.

"Funded Indebtedness" means all Indebtedness (including capitalized payment obligations under Capitalized Leases) which by its terms matures more than one year from the date as of which any calculation of Funded Indebtedness is made. Funded Indebtedness shall also include the amount by which vested benefits under employee pension benefit plans exceeds the value of assets of such plans allocable to such vested benefit, if any.

"GAAP" means generally accepted accounting principles as in effect from time to time in the United States of America.

"Governmental Authority" means

(a) the government of

(i) the United States of America or any State or other political subdivision thereof, or

(ii) any jurisdiction in which the Company or any Subsidiary conducts all or any part of its business, or which asserts jurisdiction over any properties of the Company or any Subsidiary, or

(b) any entity exercising executive, legislative, judicial, regulatory or administrative functions of, or pertaining to, any such government.

"Guaranty" means, with respect to any Person, any obligation (except the endorsement in the ordinary course of business of negotiable instruments for deposit or collection) of such Person guaranteeing or in effect guaranteeing any indebtedness, dividend or other obligation of any other Person in any manner, whether directly or indirectly, including (without limitation) obligations incurred through an agreement, contingent or otherwise, by such Person:

(a) to purchase such indebtedness or obligation or any property constituting security therefor;

(b) to advance or supply funds (i) for the purchase or payment of such indebtedness or obligation, or (ii) to maintain any working capital or other balance sheet condition or any income statement condition of any other Person or otherwise to advance or make available funds for the purchase or payment of such indebtedness or obligation;

(c) to lease properties or to purchase properties or services primarily for the purpose of assuring the owner of such indebtedness or obligation of the ability of any other Person to make payment of the indebtedness or obligation; or

(d) otherwise to assure the owner of such indebtedness or obligation against loss in respect thereof.

In any computation of the indebtedness or other liabilities of the obligor under any Guaranty, the indebtedness or other obligations that are the subject of such Guaranty shall be assumed to be direct obligations of such obligor.

"Hazardous Material" means any and all pollutants, toxic or hazardous wastes or any other substances that might pose a hazard to health or safety, the removal of which may be required or the generation, manufacture, refining, production, processing, treatment, storage, handling, transportation, transfer, use, disposal, release, discharge, spillage, seepage, or filtration of which is or shall be restricted, prohibited or penalized by any applicable law (including, without limitation, asbestos, urea formaldehyde foam insulation and polychlorinated biphenyls).

"holder" means, with respect to any Note, the Person in whose name such Note is registered in the register maintained by the Company pursuant to Section 13.1.

"Indebtedness" with respect to any Person means, at any time, without duplication,

(a) its liabilities for borrowed money and its redemption obligations in respect of mandatorily redeemable preferred stock;

(b) its liabilities for the deferred purchase price of property acquired by such Person (excluding accounts payable arising in the ordinary course of business but including all liabilities created or arising under any conditional sale or other title retention agreement with respect to any such property);

(c) all liabilities appearing on its balance sheet in accordance with GAAP in respect of Capitalized Leases;

(d) all liabilities for borrowed money secured by any Lien with respect to any property owned by such Person (whether or not it has assumed or otherwise become liable for such liabilities);

(e) all its liabilities in respect of letters of credit or instruments serving a similar function issued or accepted for its account by banks and other financial institutions (whether or not representing obligations for borrowed money);

(f) Swaps of such Person; and

(g) any Guaranty of such Person with respect to liabilities of a type described in any of clauses (a) through (f) hereof.

Indebtedness of any Person shall include all obligations of such Person of the character described in clauses (a) through (g) to the extent such Person remains legally liable in respect thereof notwithstanding that any such obligation is deemed to be extinguished under GAAP.

"Institutional Investor" means (a) any original purchaser of a Note, (b) any holder of a Note holding more than 5% of the aggregate principal amount of the Notes then outstanding, and (c) any bank, trust company, savings and loan association or other financial institution, any pension plan, any investment company, any insurance company, any broker or dealer, or any other similar financial institution or entity, regardless of legal form.

"Interest Expense" means with respect to any period for which the amount thereof is to be determined, an amount equal to interest expense on Indebtedness, including payments in the nature of interest under Capitalized Lease Obligations and the discount or implied interest component of Off-Balance Sheet Liabilities, as determined in accordance with GAAP. Interest Expense determined on a consolidated basis for the Company and its Restricted Subsidiaries will be referred to herein as "Consolidated Interest Expense."

"Investment" shall include any Investment, in cash or by the delivery of other property (except against receipt of the fair value thereof in cash or in the ordinary course of business), whether by acquisition of stock, securities or other Indebtedness, or by loan, advance, capital contribution, transfer of property or otherwise; provided, however, that (a) the acquisition of stock, securities or other Indebtedness of, or a loan, advance capital contribution or transfer of property to, a Restricted Subsidiary (or a corporation which by reason of such transaction will become a Restricted Subsidiary) by the Company or one of its Restricted Subsidiaries, or (b) the purchase, acquisition or ownership by the Company or a Restricted Subsidiary of (i) readily marketable securities issued by states or municipalities within the United States of America or agencies or subdivisions thereof rated "A" or better by any recognized rating agency, (ii) direct obligations of, or obligations unconditionally guaranteed by, the United States of America or any agency thereof, (iii) commercial paper maturing within not more than 270 days from the date of issuance thereof which is issued by any corporation organized and doing business under the laws

of the United States of America or any state thereof and which is rated "Prime 1" by Moody's Investors Service, Inc. or "A-1" by Standard and Poor's Corporation (or comparably rated by such organizations or any successors thereto if the rating system is changed or there are such successors), (iv) certificates of deposit issued by any commercial bank organized and doing business under the laws of the United States of America or any state thereof and having (x) capital, surplus and undivided profits aggregating more than \$50,000,000, and (y) outstanding commercial paper which, at the time of acquisition of such certificates of deposit by the Company or any Restricted Subsidiary is rated "Prime 1" by Moody's Investors Service, Inc. or "A-1" by Standard and Poor's Corporation (or comparably rated by such organizations or any successors thereto if the rating system is changed or there are any successors), and (v) trade accounts payable to the Company or a Restricted Subsidiary within six months from the date such liability arose, shall not be deemed an "Investment." In addition, Investments of the Company existing on the Effective Date and described on Schedule 10.5 hereto, shall not be deemed "Investments."

"Lien" means, with respect to any Person, any mortgage, lien, pledge, charge, security interest or other encumbrance, or any interest or title of any vendor, lessor, lender or other secured party to or of such Person under any conditional sale or other title retention agreement or Capital Lease, upon or with respect to any property or asset of such Person (including in the case of stock, stockholder agreements, voting trust agreements and all similar arrangements).

"Make-Whole Amount" is defined in Section 8.7.

"Material" means material in relation to the business, operations, affairs, financial condition, assets, properties, or prospects of the Company and its Subsidiaries taken as a whole.

"Material Adverse Effect" means a material adverse effect on (a) the business, operations, affairs, financial condition, assets or properties of the Company and its Subsidiaries taken as a whole, or (b) the ability of the Company to perform its obligations under this Agreement and the Notes, or (c) the validity or enforceability of this Agreement, the Notes or any Subsidiary Guaranty.

"Multiemployer Plan" means any Plan that is a "multiemployer plan" (as such term is defined in Section 4001(a)(3) of ERISA).

"Net Income" of any corporation for any fiscal period shall mean the net income (or the net deficit, if expenses and charges exceed revenues and other proper income credits) of such corporation for such period, determined in the following manner:

(a) the gross revenues and other proper income credits of such corporation shall be computed for such period in accordance with GAAP; provided that in any event there shall not be included in such gross revenues and income credits any write up in the book value of any asset resulting from the revaluation thereof; and

(b) from the amount of such gross revenues and other proper income credits for such period determined as provided in the preceding clause (a), there shall be

deducted an amount equal to the aggregate of all expenses and other proper income charges for such period, determined in accordance with GAAP but in any event deducting (without in any respect limiting the generality of the foregoing) the following items: (i) all interest charges; (ii) amortization of debt discount and expense and any other amortization of deferred charges properly subject to amortization; (iii) provision for all taxes whether in respect of property, income, excess profits or otherwise; (iv) provisions for all contingency and other reserves whether general or special; and (v) provision for depreciation, depletion, obsolescence and amortization of the properties of such corporation (including depreciation and amortization of leasehold improvements) in amounts not less than the aggregate amount actually deducted on its books and not less than the aggregate amount claimed (but adjusted for any disallowance) or to be claimed by such corporation for federal income tax purposes for such period; provided, however, that in lieu of accelerated depreciation permitted under the Code, the corporation may at its option provide for depreciation and amortization in amounts based on the normal rates customarily employed by the corporation for identical or similar types of property in the preparation of its audited financial statements, and in such event the corporation shall establish and shall maintain in accordance with GAAP an appropriate reserve in respect of any tax savings as a result of charging for tax purposes such accelerated depreciation or accelerated amortization;

provided that, in determining the amount to be included in clauses (a) and (b) above, (i) any federal tax adjustments for any period prior to January 1, 2002 shall not be a proper charge or credit to income for any period subsequent to that date, and any federal tax adjustment for any period subsequent to December 31, 2001 shall be included as a proper charge or credit to income for the year in which actually received or paid, except to the extent, if any, to which the amount of such latter adjustment is charged to a proper reserve for federal taxes set up out of income for any period subsequent to December 31, 2001; (ii) any adjustments for any period prior to January 1, 2002 resulting from any renegotiation or price redetermination in respect of any Government prime contract, or any subcontract under any Government prime contract, shall not be included as a proper charge or credit to income for any period subsequent to that date, and any such renegotiation or price redetermination adjustment for any period subsequent to December 31, 2001 shall be included as a proper charge or credit to income for the year in which actually received or paid, except to the extent, if any, to which the amount of such adjustment is charged to a proper reserve for renegotiation or price redetermination set up out of income for any period subsequent to December 31, 2001; (iii) any earnings of, and dividends payable to, such corporation in currencies which at the time are blocked against conversion into United States currency shall not be included as a proper charge or credit to income for any period subsequent to December 31, 2001; (iv) any undistributed earnings of, and dividends payable by, unconsolidated Subsidiaries or any other person (other than a Restricted Subsidiary) shall not be included as a proper charge or credit to income for any period subsequent to December 31, 2001; (v) any gains on the sale or other disposition of capital assets and taxes on such excluded gains shall not be included as a proper charge or credit to income for any period subsequent to December 31, 2001; (vi) net earnings and losses of any corporation (other than a Subsidiary) substantially all the assets of which have been acquired in any manner, realized by such other corporation prior to the date of acquisition shall not be included as a proper charge or credit to income for any period subsequent to December 31, 2001; (vii) net earnings or losses of any

corporation (other than a Restricted Subsidiary) with which the Company or a Restricted Subsidiary shall have consolidated or which shall have merged into or with the Company or a Restricted Subsidiary prior to the date of such consolidation or merger shall not be included as a proper charge or credit to income for any period subsequent to December 31, 2001; and (viii) any portion of the net earnings of any Restricted Subsidiary which for any reason is unavailable for the payment of dividends to the Company or any other Restricted Subsidiary shall not be included as a proper credit to income for any period subsequent to December 31, 2001. The term "capital assets" of any corporation as used herein shall include all fixed assets, both tangible (such as land, buildings, machinery and equipment) and intangible (such as patents, copyrights, trademarks, trade names, formulae and good will), and securities.

"Notes" is defined in Section 1.

"Off-Balance Sheet Liability" of a Person means (i) any repurchase obligation or liability of such Person or any of its Subsidiaries with respect to accounts or notes receivable sold by such Person or any of its Subsidiaries (calculated to include the unrecovered investment of purchasers or transferees of accounts or any other obligation of such Person or such transferor to purchasers/transferees of interests in accounts or notes receivable or the agent for such purchasers/transferees), (ii) any liability under any sale and leaseback transaction which is not a Capitalized Lease, (iii) any liability under any financing lease or Synthetic Lease or "tax ownership operating lease" transaction entered into by such Person, including any Synthetic Lease Obligations, or (iv) any obligation arising with respect to any other transaction which is the functional equivalent of or takes the place of borrowing but which does not constitute a liability on the balance sheets of such Person, but excluding from this clause (iv) Operating Leases.

"Officer's Certificate" means a certificate of a Senior Financial Officer or of any other officer of the Company whose responsibilities extend to the subject matter of such certificate.

"Operating Lease" of a Person means any lease of Property (other than a Capitalized Lease) by such Person as lessee which has an original term (including any required renewals and any renewals effective at the option of the lessor) of one year or more.

"PBGC" means the Pension Benefit Guaranty Corporation referred to and defined in ERISA or any successor thereto.

"Permitted Guaranties" means and includes each unsecured Guaranty by a Subsidiary of the Company's obligations under (a) the Revolving Credit Agreement and (b) the Company's then outstanding private placement note purchase agreements, provided that the Indebtedness of such Subsidiary under each such Guaranty qualifies as Specified Subsidiary Indebtedness.

"Person" means an individual, partnership, corporation, limited liability company, association, trust, unincorporated organization, or a government or agency or political subdivision thereof.

"Plan" means an "employee benefit plan" (as defined in Section 3(3) of ERISA) that is or, within the preceding five years, has been established or maintained, or to which contributions are or, within the preceding five years, have been made or required to be made, by the Company or any ERISA Affiliate or with respect to which the Company or any ERISA Affiliate may have any liability.

"property" or "properties" means, unless otherwise specifically limited, real or personal property of any kind, tangible or intangible, choate or inchoate.

"QPAM Exemption" means Prohibited Transaction Class Exemption 84-14 issued by the United States Department of Labor.

"Required Holders" means, at any time, the holders of at least 51% in principal amount of the Notes at the time outstanding (exclusive of Notes then owned by the Company or any of its Affiliates).

"Responsible Officer" means any Senior Financial Officer and any other officer of the Company with responsibility for the administration of the relevant portion of this Agreement.

"Restricted Subsidiary" means any Subsidiary of the Company which (a) is organized under the laws of any state of the United States of America or under the laws of Canada or any province thereof, (b) has substantially all of its assets located within, and operates substantially within, the United States of America or Canada, (c) at least 50% of the outstanding voting stock having ordinary voting power to elect a majority of the Board of Directors of such corporation (irrespective of whether or not at the time stock of any other class or classes shall have or might have voting power by reason of the happening of any contingency) is at the time directly or indirectly owned by the Company, by one or more of its Wholly-Owned Restricted Subsidiaries or by the Company and one or more of its Wholly-Owned Restricted Subsidiaries, and (d) which the Company designates as a Restricted Subsidiary, by notice to the holders of the Notes in the manner provided in Section 18; provided, however, that the Company may not designate any Unrestricted Subsidiary as a Restricted Subsidiary, or any Restricted Subsidiary as an Unrestricted Subsidiary, unless at the time of such designation, and after giving effect thereto, no Default or event which the passage of time or giving of notice, or both, would constitute an Event of Default would exist; and provided further that the Company may not subsequently change the designation of any Subsidiary from Restricted Subsidiary to Unrestricted Subsidiary, or from Unrestricted Subsidiary to Restricted Subsidiary, unless (w) the Company shall have given not less than 10 days' prior notice to the holders of the Notes that a Responsible Officer has made such a determination, (x) at the time of such designation and, on a pro forma basis, treating such designation as having occurred on the last day of the immediately preceding fiscal quarter, no Default or event which the passage of time or giving of notice, or both, would constitute an Event of Default would exist, (y) any designation of a Restricted Subsidiary to an Unrestricted Subsidiary is treated as a sale of assets subject to the provisions of Section 10.8 and immediately after such designation and after giving effect thereto, no Default or Event of Default shall have occurred and be continuing under Section 10.8 and (z)(i) a Subsidiary initially designated a Restricted Subsidiary shall not subsequently be designated an Unrestricted Subsidiary more than once or subsequently be designated a Restricted Subsidiary more than once

and (ii) a Subsidiary initially designated an Unrestricted Subsidiary shall not subsequently be designated a Restricted Subsidiary more than once or subsequently be designated an Unrestricted Subsidiary more than once. For all purposes of this Agreement, the Company shall, on Schedule 5.4, designate each Subsidiary which exists as of the Effective Date as an Unrestricted Subsidiary.

"Revolving Credit Agreement" means that certain Revolving Credit Agreement dated as of May 3, 2002 among the Company, Bank One, N.A., as Agent and the other financial institutions named therein, such term to include any credit facility or other instrument evidencing borrowed money replacing all or part of such Revolving Credit Agreement.

"Securities Act" means the Securities Act of 1933, as amended from time to time.

"Senior Financial Officer" means the chief financial officer, principal accounting officer, treasurer or comptroller of the Company.

"Specified Subsidiary Indebtedness" means Indebtedness of Subsidiaries consisting of unsecured Guaranties of the Company's obligations under and pursuant to (a) the Revolving Credit Agreement and (b) each of the Company's then outstanding private placement note purchase agreements and notes, provided that, within the time period required by Section 9.8 of this Agreement, the Company shall have executed and delivered, or shall have caused to be executed and delivered, to the holders of the Notes (i) an executed counterpart of a Subsidiary Guaranty or joinder agreement in respect of an existing Subsidiary Guaranty, from each of the Subsidiaries guaranteeing the Company's obligations under such Revolving Credit Agreement, and (ii) an executed counterpart of an intercreditor agreement among the holders of the Notes, each Person which is a party to the Revolving Credit Agreement as a lender or creditor (or an authorized agent on their behalf), each holder of the Company's other private placement notes then outstanding, the Company and each such guaranteeing Subsidiary, all as and to the extent required by Section 9.8 of this Agreement.

"Subsidiary" means, as to any Person, any corporation, association or other business entity in which such Person or one or more of its Subsidiaries or such Person and one or more of its Subsidiaries owns sufficient equity or voting interests to enable it or them (as a group) ordinarily, in the absence of contingencies, to elect a majority of the directors (or Persons performing similar functions) of such entity, and any partnership or joint venture if more than a 50% interest in the profits or capital thereof is owned by such Person or one or more of its Subsidiaries or such Person and one or more of its Subsidiaries (unless such partnership can and does ordinarily take major business actions without the prior approval of such Person or one or more of its Subsidiaries). Unless the context otherwise clearly requires, any reference to a "Subsidiary" is a reference to a Subsidiary of the Company.

"Subsidiary Guarantors" is defined in Section 9.8.

"Subsidiary Guaranty" means any Guaranty of any Subsidiary with respect to the payment of the Notes and all other sums due and owing by the Company under this Agreement, which Guaranty shall be in form and substance reasonably satisfactory to the Required Holders.

"Substantially-Owned Restricted Subsidiary" means any Restricted Subsidiary 90% or more of the equity interests (other than directors' qualifying shares) and voting interests at the time are owned directly or indirectly by the Company, or by one or more of its Substantially-Owned Restricted Subsidiaries or by the Company and one or more of its Substantially-Owned Restricted Subsidiaries.

"substantial part" is defined in Section 10.8.

"Swaps" means, with respect to any Person, payment obligations with respect to interest rate swaps, currency swaps and similar obligations obligating such Person to make payments, whether periodically or upon the happening of a contingency. For the purposes of this Agreement, the amount of the obligation under any Swap shall be the amount determined in respect thereof as of the end of the then most recently ended fiscal quarter of such Person, based on the assumption that such Swap had terminated at the end of such fiscal quarter, and in making such determination, if any agreement relating to such Swap provides for the netting of amounts payable by and to such Person thereunder or if any such agreement provides for the simultaneous payment of amounts by and to such Person, then in each such case, the amount of such obligation shall be the net amount so determined.

"Synthetic Lease" means each so-called synthetic, off-balance sheet or tax retention lease or other arrangement, however described, under which (a) the obligor accounts for its interest in the property covered thereby under GAAP as lessee of a lease which is not a capital lease and accounts for its interest in the property covered thereby for Federal income tax purposes as the owner or (b) the obligations of the obligor do not appear on the balance sheet of such obligor but which, upon the insolvency or bankruptcy of such obligor, would be characterized as the indebtedness of such obligor (without regard to accounting treatment).

"Synthetic Lease Obligation" means the monetary obligation of a Person under a Synthetic Lease.

"Tangible Net Worth" of any corporation shall mean the sum of the amounts set forth on the balance sheet of such corporation, prepared in accordance with GAAP and as of any date selected by such corporation not more than 45 days prior to the taking of any action for the purpose of which the determination is being made, which appears as (a) the par or stated value of all outstanding stock, (b) capital, paid-in and earned surplus and (c) long term deferred tax liabilities, less the sum of (i) any surplus resulting from any write-up of assets, (ii) good will, including any amounts (however designated on such balance sheet) representing the cost of acquisitions of Restricted Subsidiaries in excess of underlying tangible assets, unless an appraisal of such assets made by a reputable firm of appraisers at the time of acquisition shall indicate sufficient value to cover such excess, (iii) any amounts by which Investments in persons appearing on the asset side of such balance sheet exceed the lesser of cost or the proportionate share of such corporation in the book value of the assets of such persons, provided that such book value shall be reduced by any amounts representing restrictions on the payment of dividends by such persons pursuant to any law, charter provision, mortgage or indenture or, in lieu of the foregoing, any Investment may be carried at its market value if the securities representing such Investment are publicly traded, (iv) patents, trademarks, copyrights, leasehold improvements not

recoverable at the expiration of a lease and deferred charges (including, but not limited to, unamortized debt discount and expense, organization expenses, experimental and development expenses, but excluding prepaid expenses), (v) any amounts at which shares of capital stock of such corporation appear on the asset side of such balance sheet, (vi) any amount of Indebtedness not included on the liability side of such balance sheet and (vii) other comprehensive income or expense (as defined by GAAP), to the extent included in subclause (a), (b) or (c) above.

"10-K" is defined in Section 5.3.

"10-Qs" is defined in Section 5.3.

"Unrestricted Subsidiary" means any Subsidiary other than a Subsidiary which has been designated a Restricted Subsidiary. Any Subsidiary which is not expressly designated a Restricted Subsidiary or an Unrestricted Subsidiary shall be deemed designated an Unrestricted Subsidiary.

"Wholly-Owned Restricted Subsidiary" means any Restricted Subsidiary all of the equity interests (other than directors' qualifying shares) and voting interests at the time is owned directly or indirectly by the Company, or by one or more of its Wholly-Owned Restricted Subsidiaries or by the Company and one or more of its Wholly-Owned Restricted Subsidiaries.

SCHEDULE 4.9
CHANGES IN CORPORATE STRUCTURE

None.

Schedule 4.9
(to Amended and Restated Note Agreement)

SCHEDULE 5.4
SUBSIDIARIES OF THE COMPANY AND OWNERSHIP OF SUBSIDIARY STOCK

Subsidiaries of the Company

Corporate Name	Jurisdiction of Incorporation or Formation	Percentage of Shares Held or Beneficially Owned	Restricted Subsidiary (Y/N)
Stepan Europe S.A.	France	100%	N
Stepan Canada, Inc.	Canada	100%	N
Stepan Mexico, S.A. de C.V.	Mexico	100%	N
Stepan Quimica Ltda.	Brazil	100%	N
Stepan Colombiana de Quimicos	Colombia	100%	N
Stepan UK Limited	England and Wales	100% (by Stepan Europe S.A.)	N
Stepan Deutschland GmbH	Germany	100% (by Stepan Europe S.A.)	N

Affiliates of the Company

Corporate Name	Jurisdiction of Incorporation or Formation	Percentage of Shares Held or Beneficially Owned	Restricted Subsidiary (Y/N)
Stepan Philippines S.A. (Joint Venture)	Philippines	50%	N

Directors and Senior Officers of the Company

Name	Title/office
F. Quinn Stepan	Chairman and Chief Executive Officer
F. Quinn Stepan, Jr.	President and Chief Operating Officer and Director
John V. Venegoni	Vice President and General Manager - Surfactants

Schedule 5.4
(to Amended and Restated Note Agreement)

Directors and Senior Officers of the Company (cont'd)

Robert J. Wood	Vice President and General Manager - Polymers
F. Samuel Eberts III	Vice President, General Counsel and Secretary
Anthony J. Zoglio	Vice President - Manufacturing and Engineering
James E. Hurlbutt	Vice President and Corporate Controller
Kathleen M. Owens	Senior Attorney and Assistant Corporate Secretary
James A. Hartlage	Director
Thomas F. Grojean	Director
Paul H. Stepan	Director
Robert D. Cadieux	Director
Robert G. Potter	Director

Liens On Capital Stock of Subsidiaries of the Company

As guarantee of payment and reimbursement of all sums due in respect to Stepan Europe S.A. term loan, the stock of Stepan UK and Stepan Deutschland were pledged as security to Credit Lyonnais and Lyonnaise de Banque, both of Lyon, France.

In addition, Stepan Europe S.A. also assigned a EUR 3 million mortgage on the land and fixed assets located at Voreppe (Isere, France).

Agreements Containing Restrictions On Ability of Subsidiaries
to Pay Dividends

Stepan Europe S.A. term loan prohibits dividend payments.

Agreements With Requirements Affecting Parent Company

Stepan Europe S.A. bank term loan requires inter-company loans from Stepan Company, as of any year-end, to be equal in amount to the balance then outstanding on the bank term loan.

Schedule 5.4 (cont'd)
(to Amended and Restated Note Agreement)

SCHEDULE 5.5
FINANCIAL STATEMENTS

December 31, 2000 Form 10-K and Financial Statements (audited):

Consolidated Balance Sheets as of December 31, 2000 and 1999

Consolidated Statements of Income - December 31, 2000, 1999 and 1998

Consolidated Statements of Cash Flows - December 31, 2000, 1999 and 1998

December 31, 2001 Form 10-K and Financial Statements (audited):

Consolidated Balance Sheets as of December 31, 2001 and 2000

Consolidated Statements of Income - December 31, 2001, 2000 and 1999

Consolidated Statements of Cash Flows - December 31, 2001, 2000 and 1999

Interim (unaudited) quarterly Financial Statements - 2002

March 31, 2002 Form 10-Q

June 30, 2002 Form 10-Q

Schedule 5.5
(to Amended and Restated Note Agreement)

SCHEDULE 5.8
CERTAIN LITIGATION

None.

Schedule 5.8
(To Amended and Restated Note Agreement

SCHEDULE 5.10
 PRECAUTIONARY UCC FILINGS

SECURED PARTY	DEBTOR	FILING DATE/FILE #	FILING OFFICE	DOCUMENT TYPE -- PROPERTY COVERED
Forsythe/McArthur Associates, Inc., Lessor	Stepan Company	2/25/93, 3089608	Illinois SOS	UCC-1: Leased computer, data processing, telecommunications and other equipment including attachments, accessories, replacements, products and proceeds relating thereto
Forsythe/McArthur Associates, Inc.	Stepan Company	8/28/97, 3733310	Illinois SOS	UCC-3: Continues 3089608
Pitney Bowes Credit Corporation	Stepan Company	10/27/97, 3755618	Illinois SOS	UCC-1: All equipment of whatever nature manufactured, sold or distributed by Pitney Bowes Credit Inc., Monarch Marketing Systems Inc., Pitney Bowes Credit Corp., Dictaphone Corp. and subject to lease between debtor and secured party, including proceeds, additions and replacements relating thereto
Minolta Business Systems, Inc.	Stepan Company	11/21/97, 3766297	Illinois SOS	UCC-1: Leased Minolta Copier and Controller
Minolta Business Systems, Inc. IBM Credit Corporation, Lessor	Stepan Company Stepan Company	2/1/99, 3981526 3/22/00, 4184547	Illinois SOS Illinois SOS	UCC-1: Leased Minolta Controller UCC-1: Leased computer information processing and other peripheral equipment and goods wherever located, including additions, accessions, upgrades and replacements
Amcore Consumer Finance, Inc.,	Stepan Company	12/12/97, 1806897	New Jersey SOS	UCC-1: 4 leased Stainless Steel 350 Gal Tanks, Assignee includes proceeds

Schedule 5.10
 (to Amended and Restated Note Agreement)

SCHEDULE 5.11
PATENTS, ETC.

None.

Schedule 5.11
(to Amended and Restated Note Agreement)

SCHEDULE 5.14
USE OF PROCEEDS

Loan proceeds will be used to repay existing debt as well as for capital expenditures, working capital, acquisitions, dividends and other corporate purposes.

Schedule 5.14
(to Amended and Restated Note Agreement)

SCHEDULE 5.15
EXISTING INDEBTEDNESS

Indebtedness of the Company and Its Subsidiaries Outstanding On
September 30, 2002, Excluding Intercompany Loans.

Obligor	Creditor	Description of Indebtedness (Including Interest Rate)	Collateral (If Any)	Maturity	Outstanding Principal Amount (\$000'S)
Stepan Company	The Northwestern Mutual Life Insurance Company	9.70% Notes	None	Original Stated: 2006 Current: 2003	\$ 667
Stepan Company	The Northwestern Mutual Life Insurance Company	7.22% Notes	None	Original Stated: 2008 Current: 2007	\$ 5,000
Stepan Company	The Northwestern Mutual Life Insurance Company	7.69% Notes	None	2005	\$ 2,250
Stepan Company	The Northwestern Mutual Life Insurance Company	7.77% Notes	None	2010	\$ 8,182
Stepan Company	The Northwestern Mutual Life Insurance Company	6.59% Notes	None	2013	\$ 20,000
Stepan Company	The Northwestern Mutual Life Insurance Company	6.86% Notes	None	2015	\$ 20,000

Schedule 5.15
(to Amended and Restated Note Purchase Agreement)

Stepan Company	The Northwestern Mutual Life Insurance Company for its Group Annuity Separate Account	6.86% Notes	None	2015	\$ 1,000
Stepan Company	Aid Association for Lutherans	7.22% Notes	None	Original Stated: 2008 Current: 2007	\$ 5,000
Stepan Company	Aid Association for Lutherans	7.69% Notes	None	2005	\$ 2,250
Stepan Company	Aid Association for Lutherans	7.77% Notes	None	2010	\$ 8,182
Stepan Company	Thrivent Financial for Lutherans	6.86% Notes	None	2015	\$ 3,000
Stepan Company	The Mutual Life Insurance Company of New York	7.22% Notes	None	Original Stated: 2008 Current: 2007	\$ 5,000
Stepan Company	The Mutual Life Insurance Company of New York	7.69% Notes	None	2005	\$ 1,500
Stepan Company	The Mutual Life Insurance Company of New York	7.77% Notes	None	2010	\$ 5,454
Stepan Company	MONY Life Insurance Company	6.86% Notes	None	2015	\$ 3,000
Stepan Company	Connecticut General Life Insurance Company	6.59% Notes	None	2013	\$ 10,000

Schedule 5.15 (cont'd)
(to Amended and Restated Note Agreement)

Stepan Company	Connecticut General Life Insurance Company	6.86% Notes	None	2015	\$ 3,000
Stepan Europe S.A.	Credit Lyonnais (50%) Lyonnaise de Banque (50%)	Term Loan	Shares of Stepan UK and Stepan Deutschland, EUR 3MM mortgage on the land & fixed assets located at Voreppe (Isere, France).	2008	EUR 12,904
Stepan Europe S.A.	Water Agency	Government Subsidy	None	2007	EUR 103
Stepan Deutschland GmbH	SEB AG	5.50% term loan	None	2006	EUR 1,125

Agreements Providing for Future Liens On Properties of the Company
and Its Subsidiaries:

None.

Schedule 5.15 (cont'd)
(to Amended and Restated Note Agreement)

SCHEDULE 5.18
ENVIRONMENTAL MATTERS

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 (CERCLA) 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 USEPA to the company for property currently owned by the company, the company completed a Remedial Investigation Feasibility Study (RI/FS) in 1994. The company has also submitted additional information regarding the remediation, most recently in February 2002. Discussions between USEPA and the company are continuing. The company is awaiting the issuance of a Record of Decision (ROD) from USEPA relating to the currently owned and formerly owned company property and the proposed remediation. The final ROD will be issued sometime after the public comment period.

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 (DOE) took title to radiological contaminated materials and was to remediate, at its expense, all radiological waste on the company's property in Maywood, New Jersey. The Maywood property (and portions of the surrounding area) were remediated by the DOE 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 a USACE Report to Congress dated January 1998 in which the USACE 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. Subsequent to the issuance of that report, the USACE advised the company that it had requested legal advice from the Department of Justice as to the impact of the Agreement.

By letter dated July 28, 2000, the Department of Justice advised the company that the USACE and USEPA had referred to the Justice Department claims against the company for response costs incurred or to be incurred by the USACE, USEPA and the DOE in connection with the Maywood site and the Justice Department stated that the United States is entitled to recovery of its response costs from the company under CERCLA. The letter referred to both radiological and non-radiological hazardous waste at the Maywood site and stated that the United States has incurred unreimbursed response costs to date of \$138 million. Costs associated with radiological waste at the Maywood site, which the company believes represent all but a small portion of the amount referred to in the Justice Department letter, could be expected to aggregate substantially in excess of that amount. In the letter, the Justice Department invited the company to discuss settlement of the matter in order to avoid the need for litigation. The company believes that its liability, if any, for such costs has been resolved by the aforesaid Agreement. Despite the fact that the company continues to believe that it has no liability to the United States for such costs, discussions with the Justice Department are currently ongoing to attempt to resolve this matter.

Schedule 5.18
(to Amended and Restated Note Agreement)

The company believes it has adequate reserves for claims associated with the Maywood site. However, depending on the results of the ongoing discussions regarding the Maywood site, the final cost of the remediation could differ from the current estimates.

As reported previously, the company has been named as a potentially responsible party (PRP) in the case USEPA v. Jerome Lightman (92 CV 4710 D. N. J.) 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 was completed in March 2000. The company is awaiting a decision from the court. If the company is found liable at either site, a second trial as to the company's allocated share of clean-up costs at these sites will likely be held in 2003. The company believes it has adequate defenses to the issue of liability. In the event of an unfavorable outcome related to the issue of 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.

Regarding the D'Imperio Superfund Site, USEPA has indicated it will seek penalty claims against the company based on the company's alleged noncompliance with the modified Unilateral Administrative Order. The company is currently negotiating with USEPA to settle its proposed penalty against the company but does not believe that a settlement, if any, will have a material impact on the financial condition of the company. In addition, the company also received notice from the New Jersey Department of Environmental Protection (NJDEP) dated March 21, 2001, that NJDEP has indicated it will pursue cost recovery against the alleged responsible parties, including the company. The NJDEP's claims include costs related to remediation of the D'Imperio Superfund Site in the amount of \$434,405.53 and alleged natural resource damages in the amount of \$529,584.00 (as of November 3, 2000). The NJDEP settled such claims against the alleged responsible parties, resulting in the company paying its portion of \$83,061.00 in July 2002. This payment is subject to reallocation after the allocation phase of the above-identified trial, if any. The payment did not have a material impact on the financial condition of the company.

As reported previously, the company received a Section 104(e) Request for Information from USEPA dated March 21, 2000, regarding the Lightman Drum Company Site located in Winslow Township, New Jersey. The company responded to this request on May 18, 2000. In addition, the company received a Notice of Potential Liability and Request to Perform RI/FS dated June 30, 2000, from USEPA. The company has decided that it will participate in the performance of the RI/FS. However, based on the current information known regarding this site, the company is unable to predict what its liability, if any, will be for this site.

Schedule 5.18 (cont'd)
(to Amended and Restated Note Agreement)

SCHEDULE 10.5
EXISTING INVESTMENTS AS OF DECEMBER 31, 2001

Investment In	Amount of Investment* (\$000's)
-----	-----
Stepan Europe S.A.	\$ 26,762
Stepan Philippines S.A.	\$ 8,814
Stepan Mexico S.A. de C.V.	\$ 5,754
Stepan Colombiana de Quimicos	\$ 4,311
Stepan Canada, Inc.	\$ 880
Stepan Quimica Ltda.	\$ 221

* Investments are shown at cost at the time of investment, without allowance for any subsequent write-offs, appreciation or depreciation, less any amounts repaid or recovered on account of capital or principal.

Schedule 10.5
(to Amended and Restated Note Agreement)

STEPAN COMPANY

6.59% Amended and Restated Senior Note, due October 1, 2013

No. _____
\$ _____

[Date]
PPN 858586 F#2

For Value Received, the undersigned, Stepan Company (herein called the "Company"), a corporation organized and existing under the laws of the State of Delaware, hereby promises to pay to _____, or registered assigns, the principal sum of _____ Dollars on October 1, 2013, with interest (computed on the basis of a 360-day year of twelve 30-day months) (a) on the unpaid balance thereof at the rate of 6.59% per annum from the date hereof, payable semiannually, on the first day of each April and October in each year, commencing with the April 1 or October 1 next succeeding the date hereof, until the principal hereof shall have become due and payable, and (b) to the extent permitted by law on any overdue payment (including any overdue prepayment) of principal, any overdue payment of interest and any overdue payment of any Make-Whole Amount (as defined in the Amended and Restated Note Agreement referred to below), payable semiannually as aforesaid (or, at the option of the registered holder hereof, on demand), at a rate per annum from time to time equal to the greater of (i) 8.59% or (ii) the rate of interest publicly announced by Bank One, N.A. from time to time in Chicago, Illinois as its "base" or "prime" rate.

Payments of principal of, interest on and any Make-Whole Amount with respect to this Note are to be made in lawful money of the United States of America at the Company's office in Northfield, Illinois or at such other place as the Company shall have designated by written notice to the holder of this Note as provided in the Amended and Restated Note Agreement referred to below.

This Note is one of the Senior Notes (herein called the "Notes") issued pursuant to the Amended and Restated Note Agreement, dated as of December 1, 2002 (as from time to time amended, the "Amended and Restated Note Agreement"), among the Company and the respective Noteholders named therein and is entitled to the benefits thereof. Each holder of this Note will be deemed, by its acceptance hereof, (i) to have agreed to the confidentiality provisions set forth in Section 20 of the Amended and Restated Note Agreement and (ii) to have made the representation set forth in Section 6.2 of the Amended and Restated Note Agreement, provided that such holder may (in reliance upon information provided by the Company, which shall not be unreasonably withheld) make a representation to the effect that the purchase by such holder of any Note will not constitute a non-exempt prohibited transaction under Section 406(a) of ERISA.

This Note is a registered Note and, as provided in the Amended and Restated Note Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for a like principal amount will be

Exhibit 1
(to Amended and Restated Note Agreement)

issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company will not be affected by any notice to the contrary.

The Company will make required prepayments of principal on the dates and in the amounts specified in the Amended and Restated Note Agreement. This Note is also subject to optional prepayment, in whole or from time to time in part, at the times and on the terms specified in the Amended and Restated Note Agreement, but not otherwise.

If an Event of Default, as defined in the Amended and Restated Note Agreement, occurs and is continuing, the principal of this Note may be declared or otherwise become due and payable in the manner, at the price (including any applicable Make-Whole Amount) and with the effect provided in the Amended and Restated Note Agreement.

This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of Illinois excluding choice-of-law principles of the law of such State that would require the application of the laws of a jurisdiction other than such State.

Stepan Company

By _____
Name:
Title:

DESCRIPTION OF OPINION OF COUNSEL
TO THE COMPANY

The legal opinion of F. Samuel Eberts III, General Counsel of the Company, which is called for by Section 4.4(a) of the Amended and Restated Note Agreement, shall be dated the Effective Date and addressed to the Noteholders, shall be satisfactory in scope and form to the Noteholders and shall be to the effect that:

1. The Company is a corporation, duly incorporated, validly existing and in good standing under the laws of the State of Delaware, has the corporate power and the corporate authority to execute and perform the Amended and Restated Note Agreement and to issue the Notes and has the full corporate power and the corporate authority to conduct the activities in which it is now engaged and is duly licensed or qualified and is in good standing as a foreign corporation in each jurisdiction in which the character of the properties owned or leased by it or the nature of the business transacted by it makes such licensing or qualification necessary.

2. The Amended and Restated Note Agreement has been duly authorized by all necessary corporate action on the part of the Company, has been duly executed and delivered by the Company and constitutes the legal, valid and binding contract of the Company enforceable in accordance with its terms, subject to bankruptcy, insolvency, fraudulent conveyance and similar laws affecting creditors' rights generally, and general principles of equity (regardless of whether the application of such principles is considered in a proceeding in equity or at law).

3. The Notes have been duly authorized by all necessary corporate action on the part of the Company, have been duly executed and delivered by the Company and constitute the legal, valid and binding obligations of the Company enforceable in accordance with their terms, subject to bankruptcy, insolvency, fraudulent conveyance and similar laws affecting creditors' rights generally, and general principles of equity (regardless of whether the application of such principles is considered in a proceeding in equity or at law).

4. No order, permission, consent or approval of any federal or state commission, board or regulatory body is required as a condition to the lawful execution and delivery of the Amended and Restated Note Agreement or the Notes.

5. The issuance of the Notes and the execution, delivery and performance by the Company of the Amended and Restated Note Agreement do not conflict with or result in any breach of any of the provisions of or constitute a default under or result in the creation or imposition of any Lien upon any of the property of the Company pursuant to the provisions of the Certificate of Incorporation or By-laws of the Company, any law or any agreement or other instrument known to such counsel to which the Company is a party or by which the Company may be bound.

Exhibit - 4.4(a)

6. The issuance and delivery of the Notes under the circumstances contemplated by the Amended and Restated Note Agreement do not, under existing law, require the registration of the Notes under the Securities Act of 1933, as amended, or the qualification of an indenture under the Trust Indenture Act of 1939, as amended.

7. Except as set forth in the 10-K or in Schedule 5.8, there are no actions, suits or proceedings pending or, to the best knowledge and belief of such counsel, threatened against or affecting the Company, at law or in equity or before or by any federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, an adverse determination with respect to which may result in any material adverse change in the business, properties, assets or condition, financial or otherwise, of the Company.

The opinion of F. Samuel Eberts III shall cover such other matters relating to the amendment and restatement of the Existing Agreements and the exchange of the Existing Notes as the Noteholders may reasonably request. With respect to matters of fact on which such opinion is based, such counsel shall be entitled to rely on appropriate certificates of public officials and officers of the Company.

DESCRIPTION OF OPINION OF SPECIAL COUNSEL
TO THE NOTEHOLDERS

The legal opinion of Chapman and Cutler, special counsel to the Noteholders, called for by Section 4.4(b) of the Amended and Restated Note Agreement, shall be dated the Effective Date and addressed to the Noteholders, shall be satisfactory in form and substance to the Noteholders and shall be to the effect that:

1. The Company is a corporation, validly existing and in good standing under the laws of the State of Delaware and has the corporate power and the corporate authority to execute and deliver the Amended and Restated Note Agreement and to issue the Notes.

2. The Amended and Restated Note Agreement has been duly authorized by all necessary corporate action on the part of the Company, has been duly executed and delivered by the Company and constitutes the legal, valid and binding contract of the Company enforceable in accordance with its terms, subject to bankruptcy, insolvency, fraudulent conveyance and similar laws affecting creditors' rights generally, and general principles of equity (regardless of whether the application of such principles is considered in a proceeding in equity or at law).

3. The Notes have been duly authorized by all necessary corporate action on the part of the Company, and the Notes being delivered on the date hereof have been duly executed and delivered by the Company and constitute the legal, valid and binding obligations of the Company enforceable in accordance with their terms, subject to bankruptcy, insolvency, fraudulent conveyance and similar laws affecting creditors' rights generally, and general principles of equity (regardless of whether the application of such principles is considered in a proceeding in equity or at law).

4. The issuance and delivery of the Notes under the circumstances contemplated by the Amended and Restated Note Agreement do not, under existing law, require the registration of the Notes under the Securities Act of 1933, as amended, or the qualification of an indenture under the Trust Indenture Act of 1939, as amended.

The opinion of Chapman and Cutler shall also state that the opinions of F. Samuel Eberts III is satisfactory in scope and form to Chapman and Cutler and that, in their opinion, the Noteholders are justified in relying thereon.

In rendering the opinion set forth in paragraph 1 above, Chapman and Cutler may rely solely upon an examination of the Certificate of Incorporation certified by, and a certificate of good standing of the Company from, the Secretary of State of the State of Delaware, the By-laws of the Company and the General Corporation Law of the State of Delaware. The opinion of Chapman and Cutler is limited to the laws of the State of Illinois, the General Corporation Law of the State of Delaware and the Federal laws of the United States.

With respect to matters of fact upon which such opinion is based, Chapman and Cutler may rely on appropriate certificates of public officials and officers of the Company and upon

Exhibit 4.4(b)

representations of the Company and the Noteholders delivered in connection with the issuance of the Notes.

E-4.4(b)-2

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Stepan Company

Amended and Restated Note Agreement

Dated as of December 1, 2002

Re: 7.22% Amended and Restated Senior Notes, Series A,
due April 1, 2008
7.22% Amended and Restated Senior Notes, Series B,
due August 1, 2008

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Exhibit 1(b)	--	Form of 7.22% Amended and Restated Senior Notes, Series B, due August 1, 2008
Exhibit 4.4(a)	--	Form of Opinion of Counsel for the Company
Exhibit 4.4(b)	--	Form of Opinion of Special Counsel for the Noteholders

STEPAN COMPANY
EDENS AND WINNETKA AVENUE
NORTHFIELD, ILLINOIS 60093

7.22% Amended and Restated Senior Notes, Series A, due April 1, 2008
7.22% Amended and Restated Senior Notes, Series B, due August 1, 2008

Dated as of
December 1, 2002

To the Persons Listed in
The Attached Schedule A:

Ladies and Gentlemen:

Stepan Company, a Delaware corporation (the "Company"), agrees with each Noteholder listed in the attached Schedule A as follows:

Section 1. Background.

Reference is made to the separate Loan Agreements, each dated as of April 1, 1993, between the Company and, respectively, each purchaser listed in Schedule I thereto (the "Existing Agreements"), under and pursuant to which the Company issued (a) its 7.22% Promissory Notes, Series A, due April 1, 2008 in the aggregate principal amount of \$15,000,000 (the "Series A Notes") and (b) its 7.22% Promissory Notes, Series B, due August 1, 2008 in the aggregate principal amount of \$15,000,000 (the "Series B Notes"; the Series A Notes and the Series B Notes being hereinafter collectively referred to as the "Notes"). Series A Notes in the aggregate principal amount of \$7,500,000 are presently outstanding and Series B Notes in the aggregate principal amount of \$7,500,000 are presently outstanding (the "Existing Notes"). The Company now desires to amend and restate the Existing Agreements and the Existing Notes in their entirety. In order to effectuate and reflect the foregoing in the most expeditious manner, to facilitate dealings with respect to the Existing Agreements and the Existing Notes and to promote clarity and convenience, the parties hereto have agreed to amend and restate each of the Existing Agreements and the Existing Notes.

Section 2. Amendment and Restatement of Existing Agreements and Existing Notes.

Section 2.1. Amendment and Restatement of Existing Agreements. Effective the Effective Date (as hereinafter defined), the Company, by its execution of this Agreement, hereby agrees and consents to the amendment and restatement in their entirety of all of the Existing Agreements by and into this Agreement.

Section 2.2. Amendment and Restatement of Existing Notes. The Company, by its execution of this Agreement, hereby agrees and consents to the amendment and restatement in their entirety of the Existing Notes to be in the forms of Exhibit 1(a) and Exhibit 1(b), as appropriate, hereto. The Existing Notes, as so amended and restated, shall be hereinafter referred to, individually, as a "Note" and, collectively, as the "Notes," and shall include each Note delivered pursuant to any provision of this Agreement and each Note delivered in substitution or exchange for any such Note pursuant to any such provision. The Company has duly authorized the execution and delivery to each Noteholder of the Notes, which Notes shall (i) be substituted in the place of the Existing Notes, (ii) be dated and bear interest from the date of the last full payment of interest on the Existing Notes, (iii) have the terms herein and therein provided, and (iv) be substantially in the forms set out in Exhibit 1(a) and Exhibit 1(b), as appropriate, with such changes therefrom, if any, as may be approved by the Noteholders and the Company.

Section 2.3. Agreement and Consent of the Noteholders. The Noteholders are, collectively, the holders of one hundred percent (100%) in aggregate principal amount of the Existing Notes. Subject to the satisfaction of the conditions precedent set forth in Section 4, the Noteholders, by their execution of this Agreement, hereby agree and consent to: (a) the amendment and restatement in their entirety of all of the Existing Agreements by and into this Agreement and (b) the amendment and restatement in their entirety of all of the Existing Notes by the exchange for an equal number of Notes in the forms of Exhibit 1(a) and Exhibit 1(b), as appropriate, hereto and in an equal outstanding principal amount therefor.

Section 2.4. Defined Terms, Etc. Certain capitalized terms used in this Agreement are defined in Schedule B; references to a "Schedule" or an "Exhibit" are, unless otherwise specified, to a Schedule or an Exhibit attached to this Agreement; and references to a "Section" are, unless otherwise specified, to a Section of this Agreement.

Section 2.5. Several Obligations. The obligations of each Noteholder hereunder are several and not joint obligations, and no Noteholder shall have any obligation or liability to any Person for the performance or nonperformance by any other Noteholder hereunder.

Section 2.6. Effect of Amendment and Restatement. Each of the Noteholders and the Company agree that (a) the amendment and restatement of the Existing Notes and the exchange of the Existing Notes for the Notes hereunder shall not constitute a novation or a prepayment of the Existing Notes and (b) no Make-Whole Amount or other premium is payable as a result of the amendment and restatement of the Existing Agreements or the Existing Notes as contemplated hereby.

Section 3. Effective Date.

Section 3.1. Effective Date. On December 12, 2002, or such other Business Day thereafter as may be mutually agreed upon by the Company and the Noteholders (the "Effective Date"), the Company shall execute and deliver to the Noteholders at the offices of Chapman and Cutler, 111 West Monroe Street, Chicago, Illinois 60603, at 10:00 A.M. Chicago time, or at such other place agreed to by the parties, one or more Notes (as set forth below each Noteholder's name on Schedule A), registered in the name specified on Schedule A, and in the denomination

or denominations specified on Schedule A, in replacement of the Existing Notes held by each Noteholder (or such Noteholder's nominee), in the respective principal amounts, as more particularly set forth below its name on Schedule A. Contemporaneously with the receipt by each Noteholder of such Notes, the Existing Notes held by such Noteholder shall be deemed to be cancelled and amended and restated by the Notes (regardless of whether such Noteholder shall have delivered to the Company for cancellation the Existing Notes held by it). Each Noteholder agrees to use commercially reasonable efforts to deliver the Existing Notes held by it to the Company in connection with the foregoing replacement and cancellation. All amounts owing under, and evidenced by, the Existing Notes as of the Effective Date shall continue to be outstanding under, and shall from and after the Effective Date be evidenced by, the Notes, and shall be governed by the terms of this Agreement. It is the intention of the parties hereto that the amendment and restatement of the Existing Notes by the Company and the execution, delivery and full effectiveness of this Agreement be simultaneous. Existing Notes delivered to the Company pursuant to the terms of this Agreement shall be marked "Cancelled/Amended and Restated by New Notes" by the Company.

If on the Effective Date the Company shall fail to tender the Notes to any Noteholder as provided in this Section 3.1, or any of the conditions specified in Section 4 shall not have been fulfilled to any Noteholder's reasonable satisfaction, such Noteholder shall, at such Noteholder's election, be relieved of all further obligations under this Agreement, without thereby waiving any rights such Noteholder may have under the Existing Agreements, the Existing Notes or otherwise by reason of such failure or such nonfulfillment.

Section 3.2. Survival of Payment Obligations. All payment obligations of the Company under the Existing Agreements (including, without limitation, reimbursement obligations in respect of costs, expenses and fees of or incurred by the holders of the Existing Notes), other than the obligation to pay the principal of and interest and Make-Whole Amount on the Existing Notes (which obligations, after the Effective Date, shall be evidenced by the Notes) shall survive the amendment and restatement of the Existing Agreements and the Existing Notes (and the cancellation thereof).

Section 4. Conditions Precedent.

The effectiveness of this Agreement is subject to the fulfillment to such Noteholder's satisfaction, prior to or on the Effective Date, of the following conditions:

Section 4.1. Representations and Warranties. The representations and warranties of the Company in this Agreement shall be correct when made and on the Effective Date.

Section 4.2. Performance; No Default. The Company shall have performed and complied with all agreements and conditions contained in this Agreement required to be performed or complied with by it prior to or on the Effective Date, and after giving effect to the transactions contemplated hereby, no Default or Event of Default shall have occurred and be continuing.

Section 4.3. Compliance Certificates.

(a) Officer's Certificate. The Company shall have delivered to such Noteholder an Officer's Certificate, dated the Effective Date, certifying that the conditions specified in Sections 4.1, 4.2 and 4.9 have been fulfilled.

(b) Secretary's Certificate. The Company shall have delivered to such Noteholder a certificate certifying as to the resolutions attached thereto and other corporate proceedings relating to the authorization, execution and delivery of the Notes and this Agreement.

Section 4.4. Opinions of Counsel. Such Noteholder shall have received opinions in form and substance satisfactory to such Noteholder, dated the Effective Date (a) from F. Samuel Eberts III, General Counsel of the Company, covering the matters set forth in Exhibit 4.4(a) and covering such other matters incident to the transactions contemplated hereby as such Noteholder or such Noteholder's counsel may reasonably request (and the Company hereby instructs its counsel to deliver such opinion to such Noteholder) and (b) from Chapman and Cutler, the Noteholders' special counsel in connection with such transactions, substantially in the form set forth in Exhibit 4.4(b) and covering such other matters incident to such transactions as such Noteholder may reasonably request.

Section 4.5. Exchange Permitted by Applicable Law, Etc. On the Effective Date the exchange of the Existing Notes for the Notes shall (i) be permitted by the laws and regulations of each jurisdiction to which each Noteholder is subject, without recourse to provisions (such as Section 1405(a)(8) of the New York Insurance Law) permitting limited investments by insurance companies without restriction as to the character of the particular investment, (ii) not violate any applicable law or regulation (including, without limitation, Regulation T, U or X of the Board of Governors of the Federal Reserve System) and (iii) not subject any Noteholder to any tax, penalty or liability under or pursuant to any applicable law or regulation, which law or regulation was not in effect on the date hereof. If requested by any Noteholder, such Noteholder shall have received an Officer's Certificate certifying as to such matters of fact as such Noteholder may reasonably specify to enable such Noteholder to determine whether such exchange is so permitted.

Section 4.6. Delivery and Exchange of Notes. On the Effective Date, the Company shall execute and deliver to the Noteholders, in exchange for the Existing Notes held by such Noteholders, Notes as specified on Schedule A.

Section 4.7. Payment of Special Counsel Fees. Without limiting the provisions of Section 15.1, the Company shall have paid on or before the Effective Date the fees, charges and disbursements of the Noteholders' special counsel referred to in Section 4.4 to the extent reflected in a statement of such counsel rendered to the Company at least one Business Day prior to the Effective Date.

Section 4.8. Private Placement Number. A Private Placement Number issued by Standard & Poor's CUSIP Service Bureau (in cooperation with the Securities Valuation Office of

the National Association of Insurance Commissioners) shall have been obtained for each series of the Notes.

Section 4.9. Changes in Corporate Structure. Except as specified in Schedule 4.9, at any time following the date of the most recent financial statements referred to in Schedule 5.5, the Company shall not have changed its jurisdiction of incorporation or been a party to any merger or consolidation and shall not have succeeded to all or any substantial part of the liabilities of any other entity.

Section 4.10. Proceedings and Documents. All corporate and other proceedings in connection with the transactions contemplated by this Agreement and all documents and instruments incident to such transactions shall be satisfactory to such Noteholder and such Noteholder's special counsel, and such Noteholder and such Noteholder's special counsel shall have received all such counterpart originals or certified or other copies of such documents as such Noteholder or such Noteholder's special counsel may reasonably request.

Section 5. Representations and Warranties of the Company.

The Company represents and warrants to each Noteholder, as of the Effective Date, that:

Section 5.1. Organization; Power and Authority. The Company is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation, and is duly qualified as a foreign corporation and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. The Company has the corporate power and authority to own or hold under lease the properties it purports to own or hold under lease, to transact the business it transacts and proposes to transact, to execute and deliver this Agreement and the Notes and to perform the provisions hereof and thereof.

Section 5.2. Authorization, Etc. This Agreement and the Notes have been duly authorized by all necessary corporate action on the part of the Company, and this Agreement constitutes, and upon execution and delivery thereof each Note will constitute, a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except as such enforceability may be limited by (a) applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and (b) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Section 5.3. Disclosure. The Company has delivered to each Noteholder copies of (a) the annual report as filed with the Securities and Exchange Commission on Form 10-K for the fiscal year ended December 31, 2001 (the "10-K") which generally sets forth the business conducted by the Company and its Subsidiaries and the principal properties of the Company and its Subsidiaries, and (b) the quarterly reports as filed with the Securities and Exchange Commission on Form 10-Q for the quarterly fiscal periods ended March 31, 2002 and June 30, 2002 (the "10-Qs"). This Agreement, the 10-K, the 10-Qs and the other financial statements

listed in Schedule 5.5, taken as a whole, do not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading in light of the circumstances under which they were made. Since December 31, 2001, there has been no change in the financial condition, operations, business, properties or prospects of the Company or any Subsidiary except changes that individually or in the aggregate could not reasonably be expected to have a Material Adverse Effect. There is no fact known to the Company that could reasonably be expected to have a Material Adverse Effect that has not been set forth herein or in the other documents, certificates and other writings delivered to the Noteholders by or on behalf of the Company specifically for use in connection with the transactions contemplated hereby.

Section 5.4. Organization and Ownership of Shares of Subsidiaries; Affiliates. (a) Schedule 5.4 contains (except as noted therein) complete and correct lists (i) of the Company's Restricted Subsidiaries and Unrestricted Subsidiaries, showing, as to each Subsidiary, the correct name thereof, the jurisdiction of its organization, and the percentage of shares of each class of its capital stock or similar equity interests outstanding owned by the Company and each other Subsidiary, (ii) of the Company's Affiliates, other than Subsidiaries, and (iii) of the Company's directors and Executive Officers (as defined in Rule 405 of the Securities Act).

(b) All of the outstanding shares of capital stock or similar equity interests of each Subsidiary shown in Schedule 5.4 as being owned by the Company and its Subsidiaries have been validly issued, are fully paid and nonassessable and are owned by the Company or another Subsidiary free and clear of any Lien (except as otherwise disclosed in Schedule 5.4).

(c) Each Subsidiary identified in Schedule 5.4 is a corporation or other legal entity duly organized or formed, validly existing and in good standing under the laws of its jurisdiction of organization or formation, and is duly qualified as a foreign corporation or other legal entity and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Each such Subsidiary has the corporate or other power and authority to own or hold under lease the properties it purports to own or hold under lease and to transact the business it transacts and proposes to transact.

(d) No Subsidiary is a party to, or otherwise subject to, any legal restriction or any agreement (other than this Agreement, the agreements listed on Schedule 5.4 and customary limitations imposed by corporate law statutes) restricting the ability of such Subsidiary to pay dividends out of profits or make any other similar distributions of profits to the Company or any of its Subsidiaries that owns outstanding shares of capital stock or similar equity interests of such Subsidiary.

Section 5.5. Financial Statements. The Company has delivered to each Noteholder copies of the financial statements of the Company and its Subsidiaries listed on Schedule 5.5. All of said financial statements (including in each case the related schedules and notes) fairly present in all material respects the consolidated financial position of the Company and its Subsidiaries as of the respective dates specified in such financial statements and the consolidated

results of their operations and cash flows for the respective periods so specified and have been prepared in accordance with GAAP consistently applied throughout the periods involved except (a) as set forth in the notes thereto (subject, in the case of any interim financial statements, to normal year-end adjustments) and (b) as specifically disclosed in writing by the Company (i) to the Noteholders in their capacity as holders of existing notes of the Company in that certain Waiver Agreement dated as of August 12, 2002 (including the Memorandum from the Company entitled "Accounting For Deferred Management Compensation and Deferred Directors' Fees" attached to said Waiver Agreement as Exhibit A) and (ii) in its public filings with the Securities and Exchange Commission.

Section 5.6. Compliance with Laws, Other Instruments, Etc. The execution, delivery and performance by the Company of this Agreement and the Notes will not (i) contravene, result in any breach of, or constitute a default under, or result in the creation of any Lien in respect of any property of the Company or any Subsidiary under, any indenture, mortgage, deed of trust, loan, purchase or credit agreement, lease, corporate charter or by-laws, or any other agreement or instrument to which the Company or any Subsidiary is bound or by which the Company or any Subsidiary or any of their respective properties may be bound or affected, (ii) conflict with or result in a breach of any of the terms, conditions or provisions of any order, judgment, decree, or ruling of any court, arbitrator or Governmental Authority applicable to the Company or any Subsidiary or (iii) violate any provision of any statute or other rule or regulation of any Governmental Authority applicable to the Company or any Subsidiary.

Section 5.7. Governmental Authorizations, Etc. No consent, approval or authorization of, or registration, filing or declaration with, any Governmental Authority is required in connection with the execution, delivery or performance by the Company of this Agreement or the Notes.

Section 5.8. Litigation; Observance of Agreements, Statutes and Orders. (a) Except as disclosed in Schedule 5.8, and excluding environmental matters which are covered in Section 5.18, there are no actions, suits or proceedings pending or, to the knowledge of the Company, threatened against or affecting the Company or any Subsidiary or any property of the Company or any Subsidiary in any court or before any arbitrator of any kind or before or by any Governmental Authority that, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

(b) Neither the Company nor any Subsidiary is in default under any term of any agreement or instrument to which it is a party or by which it is bound, or any order, judgment, decree or ruling of any court, arbitrator or Governmental Authority or is in violation of any applicable law, ordinance, rule or regulation (including without limitation Environmental Laws and ERISA) of any Governmental Authority, which default or violation, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

Section 5.9. Taxes. The Company and its Subsidiaries have filed all tax returns that are required to have been filed in any jurisdiction, and have paid all taxes shown to be due and payable on such returns and all other taxes and assessments levied upon them or their properties, assets, income or franchises, to the extent such taxes and assessments have become due and

payable and before they have become delinquent, except for any taxes and assessments (a) the amount of which is not individually or in the aggregate Material or (b) the amount, applicability or validity of which is currently being contested in good faith by appropriate proceedings and with respect to which the Company or a Subsidiary, as the case may be, has established adequate reserves in accordance with GAAP. The Company knows of no basis for any other tax or assessment that could reasonably be expected to have a Material Adverse Effect. The charges, accruals and reserves on the books of the Company and its Subsidiaries in respect of Federal, state or other taxes for all fiscal periods are adequate. The Federal income tax liabilities of the Company and its Subsidiaries have been audited by the Internal Revenue Service and paid for all fiscal years up to and including the fiscal year ended December 31, 1997.

Section 5.10. Title to Property; Leases. The Company and its Subsidiaries have good and sufficient title to their respective properties that individually or in the aggregate are Material, including all such properties reflected in the most recent audited balance sheet referred to in Section 5.5 or purported to have been acquired by the Company or any Subsidiary after said date (except as sold or otherwise disposed of in the ordinary course of business), in each case free and clear of Liens prohibited by this Agreement. No financing statement under the Uniform Commercial Code which names the Company or any of its Restricted Subsidiaries as debtor has been filed in any jurisdiction, and neither the Company nor any of such Restricted Subsidiaries has signed any financing statement or any security agreement authorizing any secured party thereunder to file any such financing statement, except for precautionary filings described in Schedule 5.10 made in connection with leased equipment and as may otherwise be permitted by Section 10.3.

All leases that individually or in the aggregate are Material are valid and subsisting and are in full force and effect in all material respects. The Company and each Subsidiary enjoys peaceful and undisturbed possession of the premises occupied under all of the leases that are Material under which it is operating, none of which contains any unusual or burdensome provisions that could reasonably be expected to have a Material Adverse Effect. None of the assets or property the value of which is reflected in the Company's consolidated balance sheet as of December 31, 2001, is held by the Company as lessee under any lease or as conditional vendee under any conditional sale contract or other title retention agreement, other than Capitalized Leases included on such consolidated balance sheet and leasehold improvements on leased property in an aggregate amount (net after subtracting the reserve for amortization with respect to such leasehold improvements) not exceeding \$3,000,000.

Section 5.11. Licenses, Permits, Etc. Except as disclosed in Schedule 5.11,

(a) the Company and its Subsidiaries own or possess all licenses, permits, franchises, authorizations, patents, copyrights, service marks, trademarks and trade names, or rights thereto, except where the failure to own or possess could not reasonably be expected to have a Material Adverse Effect;

(b) to the best knowledge of the Company, no product of the Company infringes any license, permit, franchise, authorization, patent, copyright, service mark, trademark, trade name

or other right owned by any other Person, except for any such infringement which could not reasonably be expected to have a Material Adverse Effect; and

(c) to the best knowledge of the Company, there is no violation by any Person of any right of the Company or any of its Subsidiaries with respect to any patent, copyright, service mark, trademark, trade name or other right owned or used by the Company or any of its Subsidiaries, except violations which could not reasonably be expected to have a Material Adverse Effect.

Section 5.12. Compliance with ERISA. (a) The Company and each ERISA Affiliate have operated and administered each Plan in compliance with all applicable laws except for such instances of noncompliance as have not resulted in and could not reasonably be expected to result in a Material Adverse Effect. Neither the Company nor any ERISA Affiliate has incurred any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans (as defined in Section 3 of ERISA), and no event, transaction or condition has occurred or exists that could reasonably be expected to result in the incurrence of any such liability by the Company or any ERISA Affiliate, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate, in either case pursuant to Title I or IV of ERISA or to such penalty or excise tax provisions or to Section 401(a)(29) or 412 of the Code, other than such liabilities or Liens as would not be individually or in the aggregate reasonably likely to have a Material Adverse Effect.

(b) The present value of the aggregate benefit liabilities under each of the Plans (other than Multiemployer Plans), determined as of the end of such Plan's most recently ended plan year on the basis of the actuarial assumptions specified for funding purposes in such Plan's most recent actuarial valuation report, did not exceed the aggregate current value of the assets of such Plan allocable to such benefit liabilities by more than \$5,000,000 in the aggregate for all Plans. The term "benefit liabilities" has the meaning specified in Section 4001 of ERISA and the terms "current value" and "present value" have the meanings specified in Section 3 of ERISA.

(c) The Company and its ERISA Affiliates have not incurred withdrawal liabilities (and are not subject to contingent withdrawal liabilities) under Section 4201 or 4204 of ERISA in respect of Multiemployer Plans that individually or in the aggregate are Material.

(d) The expected post-retirement benefit obligation (determined as of the last day of the Company's most recently ended fiscal year in accordance with Financial Accounting Standards Board Statement No. 106, without regard to liabilities attributable to continuation coverage mandated by Section 4980B of the Code) of the Company and its Subsidiaries is not Material.

(e) The execution and delivery of this Agreement and the issuance and delivery of the Notes hereunder will not involve any transaction that is subject to the prohibitions of Section 406 of ERISA or in connection with which a tax could be imposed pursuant to Section 4975(c)(1)(A)-(D) of the Code. The representation by the Company in the first sentence of this Section 5.12(e) is made in reliance upon and subject to the accuracy of each Noteholder's representation in Section 6.2 as to the sources of the funds used to pay the purchase price of the Existing Notes to be exchanged by such Noteholder for the Notes.

Section 5.13. Private Offering by the Company. Neither the Company nor anyone acting on its behalf has offered the Notes or any similar securities for sale to, or solicited any offer to buy any of the same from, or otherwise approached or negotiated in respect thereof with, any Person other than the Noteholders. Neither the Company nor anyone acting on its behalf has taken, or will take, any action that would subject the issuance of the Notes to the registration requirements of Section 5 of the Securities Act.

Section 5.14. [Reserved].

Section 5.15. Existing Indebtedness; Future Liens. (a) Schedule 5.15 sets forth a complete and correct list of all outstanding Indebtedness of the Company and its Subsidiaries as of June 30, 2002, since which date there has been no Material change in the amounts, interest rates, sinking funds, installment payments or maturities of such Indebtedness of the Company or its Subsidiaries. Neither the Company nor any Subsidiary is in default and no waiver of default is currently in effect, in the payment of any principal or interest on any Indebtedness for borrowed money or Capitalized Leases of the Company or such Subsidiary and no event or condition exists with respect to any Indebtedness of the Company or any Subsidiary that would permit (or that with notice or the lapse of time, or both, would permit) one or more Persons to cause such Indebtedness to become due and payable before its stated maturity or before its regularly scheduled dates of payment.

(b) Except as disclosed in Schedule 5.15, neither the Company nor any Subsidiary has agreed or consented to cause or permit in the future (upon the happening of a contingency or otherwise) any of its property, whether now owned or hereafter acquired, to be subject to a Lien not permitted by Section 10.3.

Section 5.16. Foreign Assets Control Regulations, Etc. The exchange of the Existing Notes for the Notes by the Company hereunder and compliance by the Company with the provisions hereof and of the Notes will not violate the Trading with the Enemy Act, as amended, any of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended), or the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (enacted October 26, 2001), or any enabling legislation or executive order relating to any of the foregoing. Without limiting the foregoing, neither the Company nor any of its Subsidiaries (a) is a blocked person described in Section 1 of Executive Order 13224 of September 23, 2001 Blocking Property and Prohibiting Transactions With Persons Who Commit and Threaten to Commit, or Support Terrorism (66 Fed. Reg. 49049 (2001)) or (b) knowingly engages in any dealings or transactions, or is otherwise associated, with any such blocked person.

Section 5.17. Status under Certain Statutes. Neither the Company nor any Subsidiary is an "investment company" registered or required to be registered under the Investment Company Act of 1940, as amended, or is subject to regulation under the Public Utility Holding Company Act of 1935, as amended, the ICC Termination Act of 1995, as amended, or the Federal Power Act, as amended.

Section 5.18. Environmental Matters. Except as set forth in Schedule 5.18 and in the 10-K and the 10-Qs,

(a) the Company complies with all applicable Environmental Laws, except where the failure to comply could not reasonably be expected to have a Material Adverse Effect; and

(b) neither the Company nor any Subsidiary has knowledge of any claim or has received any written notice of any claim, and no proceeding has been instituted raising any claim against the Company or any of its Subsidiaries or any of their respective real properties now or formerly owned, leased or operated by any of them or other assets, alleging any damage to the environment or violation of any Environmental Laws, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect.

Section 6. Representations of the Noteholder.

Section 6.1. Acquisition for Investment. Each Noteholder represents that it acquired the Existing Notes amended and restated hereunder for its own account or for one or more separate accounts maintained by it or for the account of one or more pension or trust funds and not with a view to the distribution thereof, provided that the disposition of such Noteholder's or such pension or trust funds' property shall at all times be within such Noteholder's or such pension or trust funds' control. Each Noteholder understands that the Notes have not been registered under the Securities Act and may be resold only if registered pursuant to the provisions of the Securities Act or if an exemption from registration is available, except under circumstances where neither such registration nor such an exemption is required by law, and that the Company is not required to register the Notes.

Section 6.2. Source of Funds. Each Noteholder represents that at least one of the following statements is an accurate representation as to each source of funds (a "Source") used by it to pay the purchase price of the Existing Notes amended and restated hereunder:

(a) the Source is an "insurance company general account" within the meaning of Department of Labor Prohibited Transaction Exemption ("PTE") 95-60 (issued July 12, 1995) and there is no employee benefit plan, treating as a single plan, all plans maintained by the same employer or employee organization, with respect to which the amount of the general account reserves and liabilities for all contracts held by or on behalf of such plan, exceed ten percent (10%) of the total reserves and liabilities of such general account (exclusive of separate account liabilities) plus surplus, as set forth in the NAIC Annual Statement for such Noteholder most recently filed with such Noteholder's state of domicile; or

(b) the Source is either (i) an insurance company pooled separate account, within the meaning of PTE 90-1 (issued January 29, 1990), or (ii) a bank collective investment fund, within the meaning of the PTE 91-38 (issued July 12, 1991) and, except as such Noteholder has disclosed to the Company in writing pursuant to this paragraph

(b), no employee benefit plan or group of plans maintained by the same employer or employee organization beneficially owns more than 10% of all assets allocated to such pooled separate account or collective investment fund; or

(c) the Source constitutes assets of an "investment fund" (within the meaning of Part V of the QPAM Exemption) managed by a "qualified professional asset manager" or "QPAM" (within the meaning of Part V of the QPAM Exemption), no employee benefit plan's assets that are included in such investment fund, when combined with the assets of all other employee benefit plans established or maintained by the same employer or by an affiliate (within the meaning of Section V(c)(1) of the QPAM Exemption) of such employer or by the same employee organization and managed by such QPAM, exceed 20% of the total client assets managed by such QPAM, the conditions of Part I(c) and (g) of the QPAM Exemption are satisfied, neither the QPAM nor a person controlling or controlled by the QPAM (applying the definition of "control" in Section V(e) of the QPAM Exemption) owns a 5% or more interest in the Company and (i) the identity of such QPAM and (ii) the names of all employee benefit plans whose assets are included in such investment fund have been disclosed to the Company in writing pursuant to this paragraph (c); or

(d) the Source is a governmental plan; or

(e) the Source is one or more employee benefit plans, or a separate account or trust fund comprised of one or more employee benefit plans, each of which has been identified to the Company in writing pursuant to this paragraph (e); or

(f) the Source does not include assets of any employee benefit plan, other than a plan exempt from the coverage of ERISA.

If any Noteholder or any subsequent transferee of the Notes indicates in writing that such Noteholder or such transferee is relying on any representation contained in paragraph (b), (c) or (e) above, the Company shall deliver on the Effective Date and on the date of any applicable transfer a certificate, which shall either state that (i) it is neither a party in interest nor a "disqualified person" (as defined in Section 4975(e)(2) of the Code), with respect to any plan identified pursuant to paragraphs (b) or (e) above, or (ii) with respect to any plan, identified pursuant to paragraph (c) above, neither it nor any "affiliate" (as defined in Section V(c) of the QPAM Exemption) has at such time, and during the immediately preceding one year, exercised the authority to appoint or terminate said QPAM as manager of any plan identified in writing pursuant to paragraph (c) above or to negotiate the terms of said QPAM's management agreement on behalf of any such identified plan. As used in this Section 6.2, the terms "employee benefit plan", "governmental plan", "party in interest" and "separate account" shall have the respective meanings assigned to such terms in Section 3 of ERISA.

Section 7. Information as to Company.

Section 7.1. Financial and Business Information. The Company shall deliver to each holder of Notes that is an Institutional Investor:

(a) Quarterly Statements -- within 60 days after the end of each quarterly fiscal period in each fiscal year of the Company (other than the last quarterly fiscal period of each such fiscal year), duplicate copies of:

(i) a consolidated balance sheet of the Company and its Subsidiaries as at the end of such quarter, and

(ii) consolidated statements of income, changes in shareholders' equity and cash flows of the Company and its Subsidiaries for such quarter and (in the case of the second and third quarters) for the portion of the fiscal year ending with such quarter,

setting forth in each case in comparative form the figures for the corresponding periods in the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP applicable to quarterly financial statements generally, and certified by a Senior Financial Officer as fairly presenting, in all material respects, the financial position of the companies being reported on and their results of operations and cash flows, subject to changes resulting from year-end adjustments, provided that delivery within the time period specified above of copies of the Company's Quarterly Report on Form 10-Q prepared in compliance with the requirements therefor and filed with the Securities and Exchange Commission shall be deemed to satisfy the requirements of this Section 7.1(a);

(b) Annual Statements-- within 90 days after the end of each fiscal year of the Company, duplicate copies of:

(i) a consolidated balance sheet of the Company and its Subsidiaries, as at the end of such year, and

(ii) consolidated statements of income, changes in shareholders' equity and cash flows of the Company and its Subsidiaries, for such year,

setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP, and accompanied by

(A) an opinion thereon of independent certified public accountants of recognized national standing, which opinion shall state that such financial statements present fairly, in all material respects, the financial position of the companies being reported upon and their results of operations and cash flows and have been prepared in conformity with GAAP, and that the examination of such accountants in connection with such financial statements has been made in accordance with generally accepted auditing standards, and that such audit provides a reasonable basis for such opinion in the circumstances, and

(B) a certificate of such accountants stating that they have reviewed this Agreement and containing substantially the following: "We

have audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheet of Stepan Company as of December 31, 20xx, and the related statements of income, stockholders' equity, and cash flows for the year then ended, and have issued our report thereon. In connection with our audit, nothing came to our attention that caused us to believe that the Company failed to comply with the terms, covenants, provisions or conditions of Section 10.1, 10.2(a)(iii) and 10.6 of the Amended and Restated Note Agreement dated as of December 1, 2002, with the holders of the Notes stated therein (the "Noteholders") insofar as they relate to financial and accounting matters (except as hereinafter specified). However, our audit was not directed primarily toward obtaining knowledge of noncompliance with such Sections. This report is intended solely for the information and use of the boards of directors and management of Stepan Company and the Noteholders, and is not intended to be and should not be used by anyone other than these specified parties."

provided that the delivery within the time period specified above of the Company's Annual Report on Form 10-K for such fiscal year (together with the Company's annual report to shareholders, if any, prepared pursuant to Rule 14a-3 under the Exchange Act) prepared in accordance with the requirements therefor and filed with the Securities and Exchange Commission, together with the accountant's certificate described in clause (B) above, shall be deemed to satisfy the requirements of this Section 7.1(b);

(c) Restricted Subsidiaries and Unrestricted Subsidiaries -- if, and so long as, the Company has (i) one or more Restricted Subsidiaries, the financial statements referred to in Section 7.1(a) and Section 7.1(b) shall be on a consolidated basis prepared in accordance with GAAP, or (ii) one or more Unrestricted Subsidiaries, the Company shall deliver to the holders of the Notes, promptly after receipt thereof, copies of balance sheets and income and surplus and cash flows statements of each such Subsidiary, prepared in accordance with GAAP, which are not included in the financial statements furnished pursuant to Section 7.1(b), in the form delivered to the Company for the fiscal year of each such Subsidiary;

(d) SEC and Other Reports -- promptly upon their becoming available, one copy of (i) each financial statement, report, notice or proxy statement sent by the Company or any Subsidiary to public securities holders generally, and (ii) each regular or periodic report, each registration statement (without exhibits except as expressly requested by such holder), and each prospectus and all amendments thereto filed by the Company or any Subsidiary with the Securities and Exchange Commission and of all press releases and other statements made available generally by the Company or any Subsidiary to the public concerning developments that are Material;

(e) Notice of Default or Event of Default -- promptly, and in any event within five Business Days (i) after a Responsible Officer becoming aware of the existence of any Default or Event of Default or that any Person has given any notice or taken any action

with respect to a claimed default hereunder or that any Person has given any notice or taken any action with respect to a claimed default of the type referred to in Section 11(f), a written notice specifying the nature and period of existence thereof and what action the Company is taking or proposes to take with respect thereto and (ii) of their becoming available, one copy of any letter, certificate or other writing supplied by the Company's independent public accountants to any other Person pertaining to whether such accountants have cause to believe that there has been any default by the Company under any other agreement or evidence of Indebtedness;

(f) ERISA Matters -- promptly, and in any event within five Business Days after a Responsible Officer becoming aware of any of the following, a written notice setting forth the nature thereof and the action, if any, that the Company or an ERISA Affiliate proposes to take with respect thereto:

(i) with respect to any Plan, any reportable event, as defined in section 4043(b) of ERISA and the regulations thereunder, for which notice thereof has not been waived pursuant to such regulations as in effect on the date hereof; or

(ii) the taking by the PBGC of steps to institute, or the threatening by the PBGC of the institution of, proceedings under section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan, or the receipt by the Company or any ERISA Affiliate of a notice from a Multiemployer Plan that such action has been taken by the PBGC with respect to such Multiemployer Plan; or

(iii) any event, transaction or condition that could result in the incurrence of any liability by the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or such penalty or excise tax provisions, if such liability or Lien, taken together with any other such liabilities or Liens then existing, could reasonably be expected to have a Material Adverse Effect;

(g) Notices from Governmental Authority -- promptly, and in any event within 30 days of receipt thereof, copies of any notice to the Company or any Subsidiary of which a Responsible Officer is aware from any Federal or state Governmental Authority relating to any order, ruling, statute or other law or regulation that could reasonably be expected to have a Material Adverse Effect, provided that, with respect to notices regarding environmental matters at the Company's Maywood, New Jersey property, the Company shall only be required to send copies of such notices containing information regarding (i) adverse developments which are Material or (ii) matters not previously disclosed that could reasonably be expected to have a Material Adverse Effect; and

(h) Notice of Change of Control -- without limiting the obligations of the Company set forth in Section 8.3, promptly, and in any event within two Business Days of the earlier of becoming aware of the execution of a Definitive Agreement by the Company or the consummation of a Change of Control (as defined in Section 8.3), give notice thereof to all holders of the Notes; and

(i) Requested Information -- with reasonable promptness, such other data and information relating to the business, operations, affairs, financial condition, assets or properties of the Company or any of its Subsidiaries or relating to the ability of the Company to perform its obligations hereunder and under the Notes as from time to time may be reasonably requested by any such holder of Notes.

Section 7.2. Officer's Certificate. Each set of financial statements delivered to a holder of Notes pursuant to Section 7.1(a) or Section 7.1(b) hereof shall be accompanied by a certificate of a Senior Financial Officer setting forth:

(a) Covenant Compliance -- the information (including reasonably detailed calculations) required in order to establish whether the Company was in compliance with the requirements of Section 10.1 through Section 10.10 hereof, inclusive, during the quarterly or annual period covered by the statements then being furnished (including with respect to each such Section, where applicable, the calculations of the maximum or minimum amount, ratio or percentage, as the case may be, permissible under the terms of such Sections, and the calculation of the amount, ratio or percentage then in existence); and

(b) Event of Default -- a statement that such officer has reviewed the relevant terms hereof and has made, or caused to be made, under his or her supervision, a review of the transactions and conditions of the Company and its Subsidiaries from the beginning of the quarterly or annual period covered by the statements then being furnished to the date of the certificate and that such review shall not have disclosed the existence during such period of any condition or event that constitutes a Default or an Event of Default or, if any such condition or event existed or exists (including, without limitation, any such event or condition resulting from the failure of the Company or any Subsidiary to comply with any Environmental Law), specifying the nature and period of existence thereof and what action the Company shall have taken or proposes to take with respect thereto.

Section 7.3. Inspection. The Company shall permit the representatives of each holder of Notes that is an Institutional Investor:

(a) No Default -- if no Default or Event of Default then exists, at the expense of such holder and upon reasonable prior notice to the Company, to visit the principal executive office of the Company, to discuss the affairs, finances and accounts of the Company and its Subsidiaries with the Company's officers, and (with the consent of the Company, which consent will not be unreasonably withheld) its independent public accountants with a representative of the Company being present, at the option of the

Company, and (with the consent of the Company, which consent will not be unreasonably withheld) to visit the other offices and properties of the Company and each Subsidiary, all at such reasonable times and as often as may be reasonably requested in writing; and

(b) Default -- if a Default or Event of Default then exists, at the expense of the Company, to visit and inspect any of the offices or properties of the Company or any Subsidiary, to examine all their respective books of account, records, reports and other papers, to make copies and extracts therefrom, and to discuss their respective affairs, finances and accounts with their respective officers and independent public accountants (and by this provision the Company authorizes said accountants to discuss the affairs, finances and accounts of the Company and its Subsidiaries), all at such times and as often as may be requested.

Section 8. Prepayment of the Notes.

Section 8.1. Required Prepayments. In addition to paying the entire outstanding principal amount and the interest due on the Notes on the maturity date thereof:

(a) on April 1 in each year, commencing April 1, 2003 and ending April 1, 2007 (herein called "Series A Fixed Payment Dates"), both inclusive, the Company will prepay \$1,500,000 principal amount (or such lesser principal amount as shall then be outstanding) of the Series A Notes at par and without payment of the Make-Whole Amount or any premium, provided that upon any partial prepayment of the Series A Notes pursuant to Section 8.2 or Section 8.3 or purchase of the Series A Notes permitted by Section 8.6 the principal amount of each required prepayment of the Series A Notes becoming due under this Section 8.1(a) on and after the date of such prepayment or purchase shall be reduced in the same proportion as the aggregate unpaid principal amount of the Series A Notes is reduced as a result of such prepayment or purchase; and

(b) on August 1 in each year, commencing August 1, 2003 and ending August 1, 2007 (herein called "Series B Fixed Payment Dates"), both inclusive, the Company will prepay \$1,500,000 principal amount (or such lesser principal amount as shall then be outstanding) of the Series B Notes at par and without payment of the Make-Whole Amount or any premium, provided that upon any partial prepayment of the Series B Notes pursuant to Section 8.2 or Section 8.3 or purchase of the Series B Notes permitted by Section 8.6 the principal amount of each required prepayment of the Series B Notes becoming due under this Section 8.1(b) on and after the date of such prepayment or purchase shall be reduced in the same proportion as the aggregate unpaid principal amount of the Series B Notes is reduced as a result of such prepayment or purchase.

The Series A Fixed Payment Dates and the Series B Fixed Payment Dates are collectively referred to as the "Fixed Payment Dates."

Section 8.2. Optional Prepayments. (a) Without Make-Whole Amount. In addition to the prepayments required by Section 8.1, the Company, at its option, upon notice as provided

below, shall have the privilege (which shall be non-cumulative) of prepaying outstanding Notes on any Fixed Payment Date in units of \$100,000 or an integral multiple of \$10,000 in excess thereof, by payments of the principal amount of the Notes to be prepaid and accrued interest thereon to the date of such payment and without premium; provided, however, that (i) the principal amount of Series A Notes that may be prepaid pursuant to this Section 8.2(a) on any one Series A Fixed Payment Date shall not exceed the principal amount of the Series A Notes required to be prepaid pursuant to Section 8.1(a) on such Series A Fixed Payment Date, (ii) the principal amount of Series B Notes that may be prepaid pursuant to this Section 8.2(a) on any one Series B Fixed Payment Date shall not exceed the principal amount of the Series B Notes required to be prepaid pursuant to Section 8.1(b) on such Series B Fixed Payment Date, (iii) the aggregate amount of all Notes prepaid pursuant to this Section 8.2(a) shall not exceed \$5,000,000 for the Series A Notes and \$5,000,000 for the Series B Notes and (iv) the Company shall concurrently with any prepayment pursuant to this Section 8.2(a) prepay the same pro rata portion of each series of Notes.

(b) With Make-Whole Amount. In addition to the prepayments required by Section 8.1 and the rights of prepayment set forth in Section 8.2(a), the Company may, at its option, upon notice as provided below, prepay at any time all, or from time to time any part of, the Notes, in units of \$1,000,000 or an integral multiple of \$10,000 in excess thereof in the case of a partial prepayment, at 100% of the principal amount so prepaid, together with interest accrued thereon to the date of such prepayment, plus the Make-Whole Amount determined for the prepayment date with respect to such principal amount; provided that the Company shall concurrently with any prepayment pursuant to this Section 8.2(b) prepay the same pro rata portion of each series of Notes.

(c) Notices of Optional Prepayments. The Company will give each holder of Notes written notice of each optional prepayment under Section 8.2(a) and Section 8.2(b) not less than 30 days and not more than 60 days prior to the date fixed for such prepayment. Each such notice shall specify such date, the aggregate principal amount and series of the Notes to be prepaid on such date, the principal amount and series of each Note held by such holder to be prepaid (determined in accordance with Section 8.4), and the interest to be paid on the prepayment date with respect to such principal amount being prepaid, and, in the case of prepayments made pursuant to Section 8.2(b), shall be accompanied by a certificate of a Senior Financial Officer as to the estimated Make-Whole Amount due in connection with such prepayment (calculated as if the date of such notice were the date of the prepayment), setting forth the details of such computation. Two Business Days prior to such prepayment, the Company shall deliver to each holder of Notes a certificate of a Senior Financial Officer specifying the calculation of such Make-Whole Amount as of the specified prepayment date.

Section 8.3. Prepayment on Failure of Noteholders to Consent to Change of Control. In the event that the Company shall request the holders of the Notes in writing to consent to a Change of Control and the holder or holders of any Notes shall, within 30 days following the receipt of such a request, have refused in writing to consent to such a Change of Control, then the Company may at its option, but shall prior to the Change of Control, at any time within 30 days after the earlier of (x) the receipt of a response to such request from the holder or holders of 100% of the outstanding Notes, or (y) the expiration of such 30 day period, and upon not less

than three Business Days prior written notice, prepay all (but not less than all) Notes held by each holder which has refused to consent to such Change of Control by prepayment of the principal amount thereof and accrued interest thereon to the date of such prepayment, but without any premium or Make Whole Amount. Any holder which has failed to respond in writing to such request prior to the expiration of such 30 day period shall, for all purposes hereof, be deemed to have consented to such Change of Control. Any request by the Company made pursuant to this Section 8.3 shall set forth (i) a summary of the transaction or transactions causing the Change of Control, (ii) the name and address of the "person" described in clause (i) or (ii) of the definition of the term "Change of Control" set forth below, (iii) such information relating to the acquiror and pro forma financial or other information as would be reasonably necessary for each holder to make an informed decision with respect to such request, (iv) a statement as to whether, at the time of such Change of Control and after giving effect thereto, either any Event of Default or any event which, with the passage of time or giving of notice, or both, would become an Event of Default, shall have occurred and be continuing and (v) a specific reference to this Section 8.3 and the requirement that the holders must respond in writing by the date set forth in the notice and that failure to respond in writing by such specified date shall be deemed consent by such holder to the Change of Control. In the event that the Company shall receive a response to its request from any holder of a Note, it will promptly deliver a copy thereof to all other holders of Notes.

For purposes of this Agreement, the term "Change of Control" shall mean and shall be deemed to have occurred, (i) upon the Acquisition by any "person" (as that term is used in Sections 13(d) and 14(d)(2) of the Exchange Act) of beneficial ownership, direct or indirect, of more than 50% of the outstanding Voting Stock of the Company, or (ii) upon the Acquisition of the Company, or all or substantially all of its assets by, or the combination of the Company, or all or substantially all of its assets with, another "person" (as defined above), unless, in the case of either of the foregoing clauses (i) or (ii), the acquiring or surviving "person" shall be a corporation more than 50% of the outstanding Voting Stock of which is owned, immediately after such Acquisition or combination, by the owners of the Voting Stock of the Company immediately prior to such Acquisition or combination. The term "Acquisition" shall mean the earlier to occur of (x) the actual possession of the subject Voting Stock or assets, and (y) the consummation of any transaction or series of related transactions which, with the passage of time, will give such person the actual possession thereof. The term "Voting Stock" shall mean securities of any class or classes, the holders of which are ordinarily, in the absence of contingencies, entitled to elect a majority of the corporate directors (or persons performing similar functions).

Section 8.4. Allocation of Partial Prepayments. In the case of each partial prepayment of the Notes pursuant to Sections 8.2(a) and 8.2(b), the principal amount of the Notes to be prepaid shall be allocated among all of the Notes at the time outstanding in proportion, as nearly as practicable, to the respective unpaid principal amounts thereof. All partial prepayments made pursuant to Section 8.3 shall be applied only to the Notes of the holders who have refused in writing to consent to a Change of Control.

Section 8.5. Maturity; Surrender, Etc. In the case of each prepayment of Notes pursuant to this Section 8, the principal amount of each Note to be prepaid shall mature and become due

and payable on the date fixed for such prepayment, together with interest on such principal amount accrued to such date and the applicable Make-Whole Amount, if any. From and after such date, unless the Company shall fail to pay such principal amount when so due and payable, together with the interest and Make-Whole Amount, if any, as aforesaid, interest on such principal amount shall cease to accrue. Any Note paid or prepaid in full shall be surrendered to the Company and cancelled and shall not be reissued, and no Note shall be issued in lieu of any prepaid principal amount of any Note.

Section 8.6. Purchase of Notes. The Company will not and will not permit any Affiliate to purchase, redeem, prepay or otherwise acquire, directly or indirectly, any of the outstanding Notes except upon the payment or prepayment of the Notes in accordance with the terms of this Agreement and the Notes. The Company will promptly cancel all Notes acquired by it or any Affiliate pursuant to any payment, prepayment or purchase of Notes pursuant to any provision of this Agreement and no Notes may be issued in substitution or exchange for any such Notes.

Section 8.7. Make-Whole Amount. The term "Make-Whole Amount" means, with respect to any Note, an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments with respect to the Called Principal of such Note over the amount of such Called Principal, provided that the Make-Whole Amount may in no event be less than zero. For the purposes of determining the Make-Whole Amount, the following terms have the following meanings:

"Called Principal" means, with respect to any Note, the principal of such Note that is to be prepaid pursuant to Section 8.2(b) or has become or is declared to be immediately due and payable pursuant to Section 12.1, as the context requires.

"Discounted Value" means, with respect to the Called Principal of any Note, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on the Notes is payable) equal to the Reinvestment Yield with respect to such Called Principal.

"Reinvestment Yield" means, with respect to the Called Principal of any Note, 0.50% over the yield to maturity implied by (i) the yields reported, as of 10:00 A.M. (New York City time) on the second Business Day preceding the Settlement Date with respect to such Called Principal, on page "PX-1" of the Bloomberg Financial Markets Service Screen (or, if not available, any other nationally recognized trading screen reporting on-line intraday trading in U.S. Treasury securities) for actively traded U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or (ii) if no such nationally recognized trading screen reporting on-line intraday trading in United States government securities is available, the Treasury Constant Maturity Series Yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded U.S.

Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. Such implied yield will be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond-equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between (1) the actively traded U.S. Treasury security with the duration closest to and greater than the Remaining Average Life and (2) the actively traded U.S. Treasury security with the duration closest to and less than the Remaining Average Life.

"Remaining Average Life" means, with respect to any Called Principal, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) the principal component of each Remaining Scheduled Payment with respect to such Called Principal by (b) the number of years (calculated to the nearest one-twelfth year) that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

"Remaining Scheduled Payments" means, with respect to the Called Principal of any Note, all payments of such Called Principal and interest thereon that would be due after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date, provided that if such Settlement Date is not a date on which interest payments are due to be made under the terms of the Notes, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date pursuant to Section 8.2 or 12.1.

"Settlement Date" means, with respect to the Called Principal of any Note, the date on which such Called Principal is to be prepaid pursuant to Section 8.2 or has become or is declared to be immediately due and payable pursuant to Section 12.1, as the context requires.

Section 9. Affirmative Covenants.

The Company covenants that so long as any of the Notes are outstanding:

Section 9.1. Compliance with Law. The Company will, and will cause each of its Subsidiaries to, comply with all laws, ordinances or governmental rules or regulations to which each of them is subject, including, without limitation, Environmental Laws, and will obtain and maintain in effect all licenses, certificates, permits, franchises and other governmental authorizations necessary to the ownership of their respective properties or to the conduct of their respective businesses, in each case, except to the extent that non-compliance with such laws, ordinances or governmental rules or regulations, or failure to obtain or maintain in effect such licenses, certificates, permits, franchises and other governmental authorizations, could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

Section 9.2. Insurance. The Company will, and will cause each of its Subsidiaries to, maintain, with financially sound and reputable insurers, insurance with respect to their respective

properties and businesses against such casualties and contingencies, of such types, on such terms and in such amounts (including deductibles, co-insurance and self-insurance, if adequate reserves are maintained with respect thereto) as is customary in the case of entities of established reputations engaged in the same or a similar business and similarly situated.

Section 9.3. Maintenance of Properties. The Company will, and will cause each of its Subsidiaries to, maintain and keep, or cause to be maintained and kept, their respective Material properties in good repair, working order and condition (other than ordinary wear and tear), so that the business carried on in connection therewith may be properly conducted at all times, provided that this Section shall not prevent the Company or any Subsidiary from discontinuing the operation and the maintenance of any of its properties if such discontinuance is desirable in the conduct of its business.

Section 9.4. Payment of Taxes and Claims. The Company will, and will cause each of its Subsidiaries to, file all tax returns required to be filed in any jurisdiction and to pay and discharge all taxes shown to be due and payable on such returns and all other taxes, assessments, governmental charges, or levies imposed on them or any of their properties, assets, income or franchises, to the extent such taxes and assessments have become due and payable and before they have become delinquent and all claims for which sums have become due and payable that have or might become a Lien on properties or assets of the Company or any Subsidiary, provided that neither the Company nor any Subsidiary need pay any such tax or assessment or claims if (a) the amount, applicability or validity thereof is contested by the Company or such Subsidiary on a timely basis in good faith and in appropriate proceedings, and the Company or a Subsidiary has established adequate reserves therefor in accordance with GAAP on the books of the Company or such Subsidiary or (b) the nonpayment of all such taxes and assessments in the aggregate could not reasonably be expected to have a Material Adverse Effect.

Section 9.5. Corporate Existence, Etc. The Company will at all times preserve and keep in full force and effect its corporate existence. Subject to Section 10.8, the Company will at all times preserve and keep in full force and effect the corporate existence of each of its Restricted Subsidiaries (unless merged into the Company or a Wholly-Owned Restricted Subsidiary or dissolved and the property and assets of such Subsidiary are divided up to the Company or to a Wholly-Owned Restricted Subsidiary) and all rights and franchises of the Company and its Subsidiaries unless, in the good faith judgment of the Company, the termination of or failure to preserve and keep in full force and effect such corporate existence, right or franchise could not, individually or in the aggregate, have a Material Adverse Effect.

Section 9.6. Payment of Principal, Make-Whole Amount and Interest. The Company will pay or cause to be paid when due the principal and interest, and Make-Whole Amount, if any, to become due in respect of all the Notes according to the terms thereof.

Section 9.7. Keeping of Books. The Company will, and will cause each Subsidiary to, (a) at all times keep proper books of record and account in which full, true and correct entries will be made of its transactions in accordance with GAAP; and (b) set aside on its books from its earnings, for the fiscal year ending December 31, 2002, and each fiscal year thereafter, proper

reserves which, in accordance with GAAP, should be set aside from such earnings in connection with its business.

Section 9.8. Guaranty by Subsidiaries. The Company will cause each Subsidiary which delivers a Guaranty to any Person (collectively, the "Subsidiary Guarantors") in respect of any Indebtedness of the Company outstanding under the Revolving Credit Agreement to concurrently enter into a Subsidiary Guaranty, and within five Business Days thereafter shall deliver to each of the holders of the Notes the following items:

(a) an executed counterpart of such Subsidiary Guaranty or joinder agreement in respect of an existing Subsidiary Guaranty, as appropriate;

(b) an executed counterpart of an intercreditor agreement among the holders of the Notes and each such Person to which a Subsidiary is then delivering a Guaranty giving rise to the requirements of this Section 9.8, which agreement shall be in form and substance reasonably satisfactory to the holders of the Notes and shall provide that the proceeds from the enforcement of all such Subsidiary Guaranties shall be shared on an equal and ratable basis among the holders of the Notes and such other Persons; and

(c) an opinion of counsel satisfactory to the Required Holders to the effect that such Subsidiary Guaranty has been duly authorized, executed and delivered and constitutes the legal, valid and binding contract and agreement of such Subsidiary enforceable in accordance with its terms, except as an enforcement of such terms may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws affecting the enforcement of creditors' rights generally and by general equitable principles.

Section 10. Negative Covenants.

The Company covenants that so long as any of the Notes are outstanding:

Section 10.1. Financial Covenants.

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

(b) Funded Indebtedness Limitation. At no time shall the Company permit the ratio of (i) Consolidated Funded Indebtedness of the Company and its Restricted Subsidiaries to (ii) Consolidated Capitalization to exceed 0.55 to 1.00; provided that for purposes of this Section 10.1(b) all Indebtedness secured pursuant to the provisions of Sections 10.3(b), (c) and (d) shall constitute Funded Indebtedness.

(c) Secured Funded Indebtedness Limitation. The Company will not create, incur, issue, assume or become liable, contingently or otherwise, in respect of any

secured Funded Indebtedness other than secured Funded Indebtedness incurred or assumed solely for the purpose of financing the acquisition of any property and secured only as permitted under Sections 10.3(b), (c) and (d), provided that

(x) the aggregate unpaid principal amount of all Indebtedness of the Company and its Restricted Subsidiaries secured by the mortgages or Liens permitted by Sections 10.3(b), (c) and (d) shall not at any time exceed an amount equal to 10% of Consolidated Capitalization, and

(y) the sum, without duplication, of (i) the aggregate unpaid principal amount of all Indebtedness of Restricted Subsidiaries permitted by Section 10.2(a)(iii)(A) (excluding Specified Subsidiary Indebtedness), (ii) the aggregate unpaid principal amount of all Indebtedness of the Company secured pursuant to the provisions of Sections 10.3(b), (c) and (d), and (iii) the aggregate amount of liabilities of the Company and its Restricted Subsidiaries secured by Liens permitted pursuant to the provisions of Section 10.3(k), shall not at any time exceed 20% of Consolidated Capitalization.

Section 10.2. Limitations on Restricted Subsidiaries. The Company will not cause, suffer or permit any Restricted Subsidiary to:

(a) create, incur, issue, assume or become or be liable, contingently or otherwise, in respect of any Indebtedness except:

(i) Indebtedness owing to the Company or to a Wholly-Owned Restricted Subsidiary,

(ii) unsecured accounts payable and other unsecured obligations (other than as a result of borrowing) incurred in the ordinary course of business of such Subsidiary, and

(iii) Indebtedness in addition to that described in subclauses (i) and (ii) above; provided that

(A) the aggregate principal amount of all Indebtedness of Restricted Subsidiaries (other than as described in subclauses (i) and (ii) above and other than Specified Subsidiary Indebtedness) shall not at any time exceed 10% of Consolidated Capitalization;

(B) the sum, without duplication, of (x) the aggregate unpaid principal amount of all such Indebtedness permitted by subclause (iii)(A), (y) the aggregate unpaid principal amount of all Indebtedness of the Company secured pursuant to the provisions of Sections 10.3(b), (c) and (d), and (z) the aggregate amount of liabilities of the Company and its Restricted Subsidiaries secured by Liens permitted pursuant to the

provisions of Section 10.3(k), shall not at any time exceed 20% of Consolidated Capitalization; and

(C) at the time of creation, incurrence, issuance, assumption or guarantee thereof and after giving effect thereto and to the application of the proceeds thereof, no Default or Event of Default would exist (including, without limitation, under Section 10.1(b) hereof); or

(b) issue or sell any shares of its capital stock or securities convertible into such capital stock except (i) issuance or sale of directors' qualifying shares, (ii) issuance or sale to the Company or to any Wholly-Owned Restricted Subsidiary, (iii) issuance or sale of additional shares of stock of any such Subsidiary to any holders thereof entitled to receive or purchase such additional shares through the declaration of a stock dividend or through the exercise of preemptive rights and (iv) issuance or sale to any Substantially-Owned Restricted Subsidiary for fair value, provided that the Dilution of the Company's and its Restricted Subsidiaries' interests in the Subsidiary whose shares of capital stock or convertible securities are so issued or sold shall be treated as a sale of assets by the Company and such sale or deemed sale shall be permitted by Section 10.8; or

(c) sell, assign, transfer or otherwise dispose of any shares of capital stock of any class of any other Restricted Subsidiary, or any other security of, or any Indebtedness owing to it by, any other Restricted Subsidiary (except in each case to the Company or to a Wholly-Owned Restricted Subsidiary) unless such sale, assignment, transfer or other disposition (i) shall be to a Substantially-Owned Restricted Subsidiary for fair value and the Dilution of the Company's and its Restricted Subsidiaries' interests in the Subsidiary whose shares of capital stock, securities or Indebtedness are so sold, assigned, transferred or disposed of shall be treated as a sale of assets of the Company and such sale or deemed sale shall be permitted by Section 10.8 or (ii) shall meet all the conditions set forth in Section 10.7 which would be applicable to a similar disposition made by the Company; or

(d) consolidate with or merge into any other corporation or permit any other corporation to merge into it, except a merger into or consolidation with (i) the Company, (ii) any Wholly-Owned Restricted Subsidiary or (iii) any other corporation if, immediately thereafter, (y) the surviving corporation shall be a Restricted Subsidiary, and (z) the Company shall be in full compliance with all the terms and provisions of this Agreement and the Notes; or

(e) sell, lease, transfer or otherwise dispose of all or any substantial part of its property and assets except (i) to the Company or any Wholly-Owned Restricted Subsidiary or (ii) in the case of a sale to any other Person, in compliance with all applicable requirements of Sections 10.7, 10.8 and 10.11; or

(f) make any Investments or commitments to make Investments except as expressly permitted by Section 10.5.

Any corporation which becomes a Restricted Subsidiary after the date hereof shall for all purposes of this Section 10.2 be deemed to have created, assumed or incurred, at the time it becomes a Restricted Subsidiary, all Indebtedness of such corporation existing immediately after it becomes a Restricted Subsidiary.

Section 10.3. Limitations on Liens. The Company will not itself, and will not permit or suffer any Restricted Subsidiary to, create or incur or suffer to be created or incurred or to exist any mortgage, Lien, security interest, charge or encumbrance of any kind on, or pledge of, any property or assets of any kind, real or personal, tangible or intangible, of the Company or any such Subsidiary, whether owned on the Effective Date or thereafter acquired, or acquire or agree to acquire any property or assets of any kind under a conditional sale agreement or other title retention agreement or file or permit the filing of any financing statement under the Uniform Commercial Code or other similar notice under any other similar statute without equally and ratably securing the Notes with all other obligations secured thereby and which security shall be created and conveyed by documentation (which may include an intercreditor agreement) determined prior to such conveyance to be satisfactory in scope, form and substance to the Required Holders and which security shall continue in full force and effect until either (x) the same is released by the Required Holders, (y) all other obligations secured thereby are discharged, or (z) the security is released by the holders of all such other obligations, and in any case the Notes shall have the benefit, to the full extent that the holders may be entitled thereto under applicable law, of an equitable Lien on such property or assets equally and ratably securing the Notes; provided, however, that the provisions of this Section 10.3 shall not prevent or restrict the creation, incurring or existence of any of the following:

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

(b) purchase money mortgages or other Liens on real property (including leaseholds) and fixtures thereon, acquired by the Company or any such Subsidiary, to secure the purchase price of such property (or to secure Indebtedness incurred solely for the purpose of financing the acquisition of any such property to be subject to such mortgage or other Lien) and created contemporaneously with such acquisition or within 180 days thereafter, or mortgages or other Liens existing on any such property at the time of acquisition of such property by the Company or by such Subsidiary, whether or not assumed, or any mortgage or Lien on real property of such Subsidiary existing at the time of acquisition of such Subsidiary, provided that at the time of the acquisition of the property by the Company or a Restricted Subsidiary, or at the time of the acquisition of the Restricted Subsidiary by the Company, as the case may be, (i) the principal amount of the Indebtedness secured by each such mortgage or Lien, plus the principal amount of all other Indebtedness secured by mortgages or Liens on the same property, shall not exceed 75% (100% in the case of Capitalized Leases) of the cost (which shall be deemed to include the amount of all Indebtedness secured by mortgages or other Liens, including existing Liens, on such property) of such property to the Company or any such Subsidiary, or 75% (100% in the case of Capitalized Leases) of the fair value thereof (without deduction of the Indebtedness secured by mortgages or Liens on such property)

at the time of the acquisition thereof by the Company or such Subsidiary, whichever is the lesser, and (ii) every mortgage or Lien shall apply only to the property originally subject thereto and fixed improvements, accessions and attachments constructed or located thereon;

(c) refundings or extensions of the mortgages or Liens permitted in the foregoing clause (b) applying only to the same property theretofore subject to the same and fixed improvements, accessions and attachments constructed or located thereon and for amounts not exceeding the greater of (i) the principal amounts of the Indebtedness so refunded or extended at the time of the refunding or extension thereof or (ii) amounts of additional Indebtedness then permitted under all applicable provisions of Section 10.1, provided that the principal amount of such Indebtedness, plus the principal amount of all other Indebtedness secured by mortgages or Liens on the same property, shall not exceed 75% (100% in the case of Capitalized Leases) of the fair value thereof (without deduction of the Indebtedness secured by mortgages or Liens on such property) at the time of the refunding or extension;

(d) the owning or acquiring or agreeing to acquire machinery or equipment useful for the business of the Company or any such Subsidiary subject to or upon chattel mortgages or conditional sale agreements or other title retention agreements, provided that the principal amounts of the Indebtedness secured by such chattel mortgages, plus the aggregate amounts payable under such conditional sale agreements and other title retention agreements, shall not exceed the limitations set forth in Section 10.1(c);

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

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

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

(h) Liens for taxes not yet subject to penalties for non-payment or contested as permitted by Section 9.4, or survey exceptions, or encumbrances, easements or reservations of, or rights of others for, rights of way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real properties, which encumbrances, easements, reservations, rights and restrictions do not in the aggregate materially detract from the value of said properties or materially impair their use in the operation of the business of the Company or of such Subsidiary owning the same;

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

(j) any arrangement permitted by Section 10.9;

(k) inchoate Liens arising under ERISA to secure contingent liabilities under said Act; or

(l) Liens on accounts receivable and ancillary rights sold (or in which participating interests are sold) in compliance with all applicable requirements of Section 10.8,

provided, however, that the aggregate unpaid principal amount of all Indebtedness of the Company and its Restricted Subsidiaries secured by the mortgages or Liens of the types described in Sections 10.3(b), (c) and (d) shall not at any time exceed the amounts permitted pursuant to Sections 10.1(c) and 10.2(a)(iii)(B).

For purposes of this Agreement, the Company or a Restricted Subsidiary shall be deemed to be the owner of any property which it has acquired or holds subject to a conditional sale agreement, Capitalized Lease or other arrangement pursuant to which the property has been retained by or vested in some other person for security purposes and such retention or vesting shall constitute a Lien hereunder.

Section 10.4. Limitations on Guaranties. The Company will not itself, and will not permit any Restricted Subsidiary to, guarantee any dividend, or guarantee any obligation or Indebtedness, of any other Person other than (a) guaranties by the Company of obligations or Indebtedness of a Restricted Subsidiary which such Subsidiary shall be authorized to incur pursuant to the provisions of this Agreement, (b) guaranties incurred in the ordinary course of business of the Company or of a Restricted Subsidiary, (c) guaranties by the Company of Indebtedness of Persons other than Restricted Subsidiaries if, and to the extent that, immediately after giving effect thereto, no Default or Event of Default would exist (including, without limitation, under Section 10.1(b), treating all such guaranties as Funded Indebtedness for purposes of such determination), (d) Subsidiary Guaranties and (e) Permitted Guaranties.

Section 10.5. Limitations on Investments. The Company will not itself, and will not permit any Restricted Subsidiary to, make any Investment, or any commitment to make any Investment, if, immediately after giving effect to any such proposed Investment, (a) the aggregate amount of all Investments, including Investments made prior to the Effective Date (all such Investments to be taken at the cost thereof at the time of making such Investment without allowance for any subsequent write-offs or appreciation or depreciation thereof, but less any amount repaid or recovered on account of capital or principal), shall exceed 30% of the Consolidated Tangible Net Worth of the Company and its Restricted Subsidiaries, or (b) Consolidated Funded Indebtedness shall exceed 55% of Consolidated Capitalization.

Section 10.6. Limitations on Dividends. The Company will not declare or pay, or set apart any funds for the payment of, any dividends (other than dividends payable in common stock of the Company) on any shares of capital stock of any class of the Company, or apply any of its funds, property or assets to, or set apart any funds, property or assets for, the purchase, redemption or other retirement of, or make any other distribution, by reduction of capital or otherwise, in respect of, any shares of capital stock of any class of the Company, unless, immediately after giving effect to such action (a) no Default or Event of Default would exist (including, without limitation, under Section 10.1(b) hereof), and (b) the sum of

(1) the amounts declared and paid or payable as, or set apart for, dividends (other than dividends paid or payable in common stock of the Company) on, or distributions (taken at cost to the Company or fair value at time of distribution, whichever is higher) in respect of, all shares of capital stock of all classes of the Company subsequent to December 31, 2001, and

(2) the excess, if any, of the amounts applied to, or set apart for, the purchase, redemption or retirement of all shares of capital stock of all classes of the Company subsequent to December 31, 2001, over the sum of (i) such amounts as shall have been received as the net cash proceeds of sales of shares of capital stock of all classes of the Company subsequent to December 31, 2001, plus (ii) the aggregate principal amount of all Indebtedness of the Company and its Subsidiaries converted into or exchanged for shares of capital stock of the Company subsequent to December 31, 2001,

would not be in excess of (x) \$30,000,000 plus (or minus in the case of a deficit) (y) the Consolidated Net Income of the Company and its Restricted Subsidiaries accrued subsequent to December 31, 2001. The foregoing provisions of this Section 10.6 to the contrary notwithstanding (i) the Company may pay any dividend within 90 days of the date of its declaration if, on the date of declaration, such dividend could properly have been paid within the limitations of this Section 10.6, and (ii) the Company may pay regular dividends on or make payments or purchases required to be made at the time when made by the terms of any sinking fund, purchase fund or mandatory redemption requirement in respect of any outstanding shares of preferred stock of the Company originally issued for cash but all amounts so paid or applied pursuant to clauses (i) and (ii) above shall be included in any subsequent computation of restricted payments under this Section 10.6. The Company will not declare any dividend to be payable more than 90 days after the date of declaration thereof. The Company will not declare any dividend if an Event of Default shall have occurred and be continuing.

Section 10.7. Limitations on Dispositions of Stock or Indebtedness of Restricted Subsidiaries. The Company will not sell, assign, transfer or otherwise dispose of (except to a Wholly-Owned Restricted Subsidiary) any shares of capital stock of any class of any Restricted Subsidiary, or any other security of, or any Indebtedness owing to the Company by, any such Restricted Subsidiary, unless

(a) (i) all of the capital stock and other securities owned by the Company and its Restricted Subsidiaries, and the entire Indebtedness of such Restricted Subsidiary at the time owing to the Company and all its other Restricted Subsidiaries, shall be sold, assigned, transferred or otherwise disposed of, at the same time for cash, (ii) such Restricted Subsidiary shall not, at the time of such sale, assignment, transfer or other disposition, own either (x) any shares of capital stock of any class or any other security or any Indebtedness of any other Restricted Subsidiary of the Company which is not being simultaneously disposed of as permitted by this Section 10.7 or (y) any Indebtedness of the Company, and (iii) such sale, assignment or transfer is permitted by Section 10.8; or

(b) such sale, assignment, transfer or other disposition is to a Substantially-Owned Restricted Subsidiary for fair value and the Dilution of the Company's and its Restricted Subsidiaries' interests in the Subsidiary whose shares of capital stock, securities or Indebtedness are so sold, assigned, transferred or disposed of shall be treated as a sale of assets of the Company and shall be in compliance with the applicable requirements of Section 10.8.

Section 10.8. Limitations on Mergers, Consolidations and Sales of Assets. The Company will not (a) consolidate with or merge into any other Person, or permit any other Person to merge into the Company, unless (i) the surviving or continuing Person shall be either the Company or another solvent corporation organized under the laws of any state of the United States or the District of Columbia having long term unsecured debt which is rated "BBB" or better by Standard & Poor's Corporation or "Baa" or better by Moody's Investors Service, Inc., (ii) the due and punctual payment of the principal of and Make-Whole Amount, if any, and interest on all of the Notes according to their tenor, and this Agreement to be performed or observed by the Company are expressly assumed in writing by the surviving corporation and the surviving corporation shall furnish to the holders of the Notes an opinion of counsel satisfactory to such holders to the effect that the instrument of assumption has been duly authorized, executed and delivered and constitutes the legal, valid and binding contract and agreement of the surviving corporation enforceable in accordance with its terms, except as enforcement of such terms may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws affecting the enforcement of creditors' right generally and by general equitable principles, and (iii) no Event of Default shall exist at the time of, or result from, such merger or consolidation; or (b) sell, lease, transfer or otherwise dispose of all or any substantial part of its property and assets.

For the purposes of this Section 10.8 and Section 10.2(e), a sale, lease, transfer or disposition of properties or assets of the Company or a Restricted Subsidiary shall be deemed to be of a "substantial part" thereof only if the fair market value of such properties or assets, when added to the fair market value of all other properties or assets sold, leased, transferred or disposed of by the Company and its Restricted Subsidiaries, other than (x) in the ordinary course of business, or (y) in an Approved Transaction, during the 365 day period ending on the date of

the consummation of such sale, lease, transfer or disposition exceeds 15% of the Consolidated Assets of the Company and its Restricted Subsidiaries determined as of the end of the Company's immediately preceding fiscal year.

As used herein, the term "Approved Transaction" shall mean any sale, lease, transfer or disposition of properties or assets to the extent that the Company shall, within 5 Business Days of such sale, lease, transfer or disposition, certify in writing to each holder of outstanding Notes that such transaction shall constitute an "Approved Transaction" for all purposes hereof.

The Company will, on a date not later than the 365th day after the occurrence of any Approved Transaction, apply an amount equal to the after tax proceeds of each Approved Transaction to either

(i) the purchase, acquisition or construction of capital assets which are useful and to be used in the surfactant, polymer, or specialty chemical business of the Company or a Restricted Subsidiary or a line of business reasonably related to the foregoing or any other line of business in which the Company and its Subsidiaries are engaged as of the Effective Date and described in the 10-K; or

(ii) the prepayment of unsecured Funded Indebtedness of the Company, including the concurrent prepayment of Notes pursuant to the provisions of Section 8.2(b) hereof pro rata with all other unsecured Funded Indebtedness then being prepaid;

provided, however, that to the extent that, at any time, the fair market value of all properties or assets which were the subject of Approved Transactions (an amount equal to the net after tax proceeds of which have not theretofore been applied as contemplated in clause (i) or clause (ii) above) exceeds 10% of the Consolidated Assets of the Company and its Restricted Subsidiaries, determined as of the end of the fiscal year of the Company immediately preceding any determination hereunder, the Company will, on a date not later than the 30th day after such determination, apply the net after tax proceeds of such excess Approved Transactions in the manner contemplated in clause (i) or clause (ii) above.

Section 10.9. Limitations on Sale-and-Leasebacks. The Company will not itself, and will not permit any Restricted Subsidiary to, enter into any arrangement, directly or indirectly, with any person whereby the Company or such Subsidiary shall sell or transfer any manufacturing plant or equipment owned or acquired by the Company or such Subsidiary and then or thereafter rent or lease, as lessee, such property or any part thereof, or other property which the Company or such Subsidiary, as the case may be, intends to use for substantially the same purpose or purposes as the property being sold or transferred, unless (a) the lease covering such property or other property shall be for a term of not less than three years, and (b) the Company could then have outstanding unsecured Funded Indebtedness under Section 10.1(b) in an amount not less than the capitalized value of the rentals payable by the Company or such Subsidiary, as the case may be, under such lease determined in accordance with GAAP.

Section 10.10. Limitations on Rentals. The Company will not itself, and will not permit any Restricted Subsidiary to, enter into, as lessee, or be a party to, any lease of property if, immediately after giving effect to such lease, the aggregate amount of Rentals (excluding up to \$2,500,000 of tank car rentals incurred during such fiscal year and any Rentals payable under Capitalized Leases or under leases between the Company and any Wholly-Owned Restricted Subsidiary or between Wholly-Owned Restricted Subsidiaries) for any fiscal year of the Company payable by the Company and its Restricted Subsidiaries with respect to all such leases shall exceed 5% of Consolidated Tangible Net Worth of the Company and its Restricted Subsidiaries. For the purposes of this Section 10.10, the term "Rentals," with respect to any lease and for any period, shall mean the aggregate amount payable by the lessee under such lease for such period to the lessor.

Section 10.11. Transactions with Affiliates. Notwithstanding any other provision hereof, the Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into any transaction with any Affiliate of the Company (other than a Wholly-Owned Restricted Subsidiary) unless such transaction is in the ordinary course of, and pursuant to the reasonable requirements of, the Company's or such Restricted Subsidiary's business and is determined by the Board of Directors of the Company to be at least as favorable to the Company or such Restricted Subsidiary as generally obtainable at the time from persons other than Affiliates of the Company in a similar transaction.

Section 11. Events of Default.

An "Event of Default" shall exist if any of the following conditions or events shall occur and be continuing:

- (a) the Company defaults in the payment of any principal or Make-Whole Amount, if any, on any Note when the same becomes due and payable, whether at maturity or at a date fixed for prepayment or by declaration or otherwise; or
- (b) the Company defaults in the payment of any interest on any Note for more than five Business Days after the same becomes due and payable; or
- (c) the Company defaults in the performance of or compliance with any term contained in Section 10; or
- (d) the Company defaults in the performance of or compliance with any term contained herein (other than those referred to in paragraphs (a), (b) and (c) of this Section 11) and such default is not remedied within 30 days after the earlier of (i) a Responsible Officer obtaining actual knowledge of such default and (ii) the Company receiving written notice of such default from any holder of a Note (any such written notice to be identified as a "notice of default" and to refer specifically to this paragraph (d) of Section 11); or
- (e) any representation or warranty made in writing by or on behalf of the Company or any Subsidiary Guarantor or by any officer of the Company or any

Subsidiary Guarantor in this Agreement, any Subsidiary Guaranty or in any writing furnished in connection with the transactions contemplated hereby proves to have been false or incorrect in any material respect on the date as of which made; or

(f) (i) the Company or any Restricted Subsidiary is in default (as principal or as guarantor or other surety) in the payment of any principal of or premium or make-whole amount or interest on any Indebtedness that is outstanding in an aggregate principal amount of at least \$2,500,000 beyond any period of grace provided with respect thereto, or (ii) the Company or any Restricted Subsidiary is in default in the performance of or compliance with any term of any evidence of any Indebtedness in an aggregate outstanding principal amount of at least \$2,500,000 or of any mortgage, indenture or other agreement relating thereto or any other condition exists, and as a consequence of such default or condition such Indebtedness has become, or has been declared (or one or more Persons are entitled to declare such Indebtedness to be), due and payable before its stated maturity or before its regularly scheduled dates of payment, or (iii) as a consequence of the occurrence or continuation of any event or condition (other than the passage of time or the right of the holder of Indebtedness to convert such Indebtedness into equity interests), (x) the Company or any Restricted Subsidiary has become obligated to purchase or repay Indebtedness before its regular maturity or before its regularly scheduled dates of payment in an aggregate outstanding principal amount of at least \$2,500,000, or (y) one or more Persons have the right to require the Company or any Restricted Subsidiary so to purchase or repay such Indebtedness; or

(g) the Company or any Restricted Subsidiary (i) is generally not paying, or admits in writing its inability to pay, its debts as they become due, (ii) files, or consents by answer or otherwise to the filing against it of, a petition for relief or reorganization or arrangement or any other petition in bankruptcy, for liquidation or to take advantage of any bankruptcy, insolvency, reorganization, moratorium or other similar law of any jurisdiction, (iii) makes an assignment for the benefit of its creditors, (iv) consents to the appointment of a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, (v) is adjudicated as insolvent or to be liquidated, or (vi) takes corporate action for the purpose of any of the foregoing; or

(h) a court or governmental authority of competent jurisdiction enters an order appointing, without consent by the Company or any of its Restricted Subsidiaries, a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, or constituting an order for relief or approving a petition for relief or reorganization or any other petition in bankruptcy or for liquidation or to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding-up or liquidation of the Company or any of its Restricted Subsidiaries, or any such petition shall be filed against the Company or any of its Restricted Subsidiaries and such petition shall not be dismissed within 60 days; or

(i) a final judgment or judgments for the payment of money in excess of \$1,000,000 are rendered against one or more of the Company and its Restricted

Subsidiaries and which judgments are not, within 30 days after entry thereof, bonded, discharged or stayed pending appeal or are not discharged within 60 days after the expiration of such stay or appeal; or

(j) a Change of Control shall occur and continue for more than 40 days or a default shall occur in giving notice of any Change of Control pursuant to the provisions of Section 7.1(h); or

(k) any Subsidiary Guaranty shall cease to be in full force and effect for any reason whatsoever (other than with the prior consent of the Required Holders), including, without limitation, a determination by a Governmental Authority of competent jurisdiction that either such guaranty is invalid, void or unenforceable or a Subsidiary Guarantor shall contest or deny in writing the validity or enforceability of any of its obligations under any Subsidiary Guaranty; or

(l) if (i) any Plan shall fail to satisfy the minimum funding standards of ERISA or the Code for any plan year or part thereof or a waiver of such standards or extension of any amortization period is sought or granted under Section 412 of the Code, (ii) a notice of intent to terminate any Plan shall have been or is reasonably expected to be filed with the PBGC or the PBGC shall have instituted proceedings under ERISA Section 4042 to terminate or appoint a trustee to administer any Plan or the PBGC shall have notified the Company or any ERISA Affiliate that a Plan may become a subject of any such proceedings, (iii) the aggregate "amount of unfunded benefit liabilities" (within the meaning of Section 4001(a)(18) of ERISA) under all Plans, determined in accordance with Title IV of ERISA, shall exceed \$5,000,000, (iv) the Company or any ERISA Affiliate shall have incurred or is reasonably expected to incur any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, (v) the Company or any ERISA Affiliate withdraws from any Multiemployer Plan, or (vi) the Company or any Subsidiary establishes or amends any employee welfare benefit plan that provides post-employment welfare benefits in a manner that would increase the liability of the Company or any Subsidiary thereunder; and any such event or events described in clauses (i) through (vi) above, either individually or together with any other such event or events, could reasonably be expected to have a Material Adverse Effect.

As used in Section 11(l), the terms "employee benefit plan" and "employee welfare benefit plan" shall have the respective meanings assigned to such terms in Section 3 of ERISA.

Section 12. Remedies On Default, Etc.

Section 12.1. Acceleration. (a) If an Event of Default with respect to the Company described in paragraph (g) or (h) of Section 11 (other than an Event of Default described in clause (i) of paragraph (g) or described in clause (vi) of paragraph (g) by virtue of the fact that such clause encompasses clause (i) of paragraph (g)) has occurred, all the Notes then outstanding shall automatically become immediately due and payable.

(b) If any Event of Default described in paragraph (a) of Section 11 has occurred and is continuing, any holder or holders of 25% or more in principal amount of the Notes at the time outstanding may, and if any other Event of Default has occurred and is continuing, the Required Holders may at any time at its or their option, by notice or notices to the Company, declare all the Notes then outstanding to be immediately due and payable.

(c) In addition to the collective remedies of the holders of the Notes in clause (b), if any Event of Default described in paragraph (a) or (b) of Section 11 has occurred and is continuing, any holder of Notes at the time outstanding affected by such Event of Default may at any time, at its option, by notice or notices to the Company, declare all the Notes held by it to be immediately due and payable.

Upon any Note's becoming due and payable under this Section 12.1, whether automatically or by declaration, such Note will forthwith mature and the entire unpaid principal amount of such Note, plus (x) all accrued and unpaid interest thereon and (y) the Make-Whole Amount determined in respect of such principal amount (to the full extent permitted by applicable law), shall all be immediately due and payable, in each and every case without presentment, demand, protest or further notice, all of which are hereby waived. The Company acknowledges, and the parties hereto agree, that each holder of a Note has the right to maintain its investment in the Notes free from repayment by the Company (except as herein specifically provided for), and that the provision for payment of a Make-Whole Amount by the Company in the event that the Notes are prepaid or are accelerated as a result of an Event of Default, is intended to provide compensation for the deprivation of such right under such circumstances.

Section 12.2. Other Remedies. If any Default or Event of Default has occurred and is continuing, and irrespective of whether any Notes have become or have been declared immediately due and payable under Section 12.1, the holder of any Note at the time outstanding may proceed to protect and enforce the rights of such holder by an action at law, suit in equity or other appropriate proceeding, whether for the specific performance of any agreement contained herein or in any Note, or for an injunction against a violation of any of the terms hereof or thereof, or in aid of the exercise of any power granted hereby or thereby or by law or otherwise.

Section 12.3. Rescission. At any time after any Notes have been declared due and payable pursuant to clause (b) or (c) of Section 12.1, the Required Holders then outstanding, by written notice to the Company, may rescind and annul any such declaration and its consequences if (a) the Company has paid all overdue interest on the Notes, all principal of and Make-Whole Amount, if any, on any Notes that are due and payable and are unpaid other than by reason of such declaration, and all interest on such overdue principal and Make-Whole Amount, if any, and (to the extent permitted by applicable law) any overdue interest in respect of the Notes, at the Default Rate, (b) all Events of Default and Defaults, other than non-payment of amounts that have become due solely by reason of such declaration, have been cured or have been waived pursuant to Section 17, and (c) no judgment or decree has been entered for the payment of any monies due pursuant hereto or to the Notes. No rescission and annulment under this Section 12.3 will extend to or affect any subsequent Event of Default or Default or impair any right consequent thereon.

Section 12.4. No Waivers or Election of Remedies, Expenses, Etc. No course of dealing and no delay on the part of any holder of any Note in exercising any right, power or remedy shall operate as a waiver thereof or otherwise prejudice such holder's rights, powers or remedies. No right, power or remedy conferred by this Agreement or by any Note upon any holder thereof shall be exclusive of any other right, power or remedy referred to herein or therein or now or hereafter available at law, in equity, by statute or otherwise. Without limiting the obligations of the Company under Section 15, the Company will pay to the holder of each Note on demand such further amount as shall be sufficient to cover all costs and expenses of such holder incurred in any enforcement or collection under this Section 12, including, without limitation, reasonable attorneys' fees, expenses and disbursements.

Section 13. Registration; Exchange; Substitution of Notes.

Section 13.1. Registration of Notes. The Company shall keep at its principal executive office a register for the registration and registration of transfers of Notes. The name and address of each holder of one or more Notes, each transfer thereof and the name and address of each transferee of one or more Notes shall be registered in such register. Prior to due presentment for registration of transfer, the Person in whose name any Note shall be registered shall be deemed and treated as the owner and holder thereof for all purposes hereof, and the Company shall not be affected by any notice or knowledge to the contrary. The Company shall give to any holder of a Note that is an Institutional Investor promptly upon request therefor, a complete and correct copy of the names and addresses of all registered holders of Notes.

Section 13.2. Transfer and Exchange of Notes. Upon surrender of any Note at the principal executive office of the Company for registration of transfer or exchange (and in the case of a surrender for registration of transfer, duly endorsed or accompanied by a written instrument of transfer duly executed by the registered holder of such Note or its attorney duly authorized in writing and accompanied by the address for notices of each transferee of such Note or part thereof), the Company shall execute and deliver, at the Company's expense (except as provided below), one or more new Notes (as requested by the holder thereof) in exchange therefor, in an aggregate principal amount equal to the unpaid principal amount of the surrendered Note. Each such new Note shall be payable to such Person as such holder may request and shall be substantially in the form of Exhibit 1. Each such new Note shall be dated and bear interest from the date to which interest shall have been paid on the surrendered Note or dated the date of the surrendered Note if no interest shall have been paid thereon. The Company may require payment of a sum sufficient to cover any stamp tax or governmental charge imposed in respect of any such transfer of Notes. Notes shall not be transferred in denominations of less than \$100,000, provided that if necessary to enable the registration of transfer by a holder of its entire holding of Notes, one Note may be in a denomination of less than \$100,000. Any transferee of a Note, or purchaser of a participation therein, shall, by its acceptance of such Note be deemed to make the same representations to the Company regarding the Note or participation as such Noteholder has made pursuant to Section 6.2, provided that such entity may (in reliance upon information provided by the Company, which shall not be unreasonably withheld) make a representation to the effect that the purchase by such entity of any Note will not constitute a non-exempt prohibited transaction under Section 406(a) of ERISA.

Section 13.3. Replacement of Notes. Upon receipt by the Company of evidence reasonably satisfactory to it of the ownership of and the loss, theft, destruction or mutilation of any Note (which evidence shall be, in the case of an Institutional Investor, notice from such Institutional Investor of such ownership and such loss, theft, destruction or mutilation), and

(a) in the case of loss, theft or destruction, of indemnity reasonably satisfactory to it (provided that if the holder of such Note is, or is a nominee for, an original Noteholder or another holder of a Note with a minimum net worth of at least \$15,000,000, such Person's own unsecured agreement of indemnity shall be deemed to be satisfactory), or

(b) in the case of mutilation, upon surrender and cancellation thereof,

the Company at its own expense shall execute and deliver, in lieu thereof, a new Note, dated and bearing interest from the date to which interest shall have been paid on such lost, stolen, destroyed or mutilated Note or dated the date of such lost, stolen, destroyed or mutilated Note if no interest shall have been paid thereon.

Section 14. Payments On Notes.

Section 14.1. Place of Payment. Subject to Section 14.2, payments of principal, Make-Whole Amount, if any, and interest becoming due and payable on the Notes shall be made in Northfield, Illinois, at the principal office of the Company in such jurisdiction. The Company may at any time, by notice to each holder of a Note, change the place of payment of the Notes so long as such place of payment shall be either the principal office of the Company in such jurisdiction or the principal office of a bank or trust company in such jurisdiction.

Section 14.2. Home Office Payment. So long as any Noteholder or such Noteholder's nominee shall be the holder of any Note, and notwithstanding anything contained in Section 14.1 or in such Note to the contrary, the Company will pay all sums becoming due on such Note for principal, Make-Whole Amount, if any, and interest by the method and at the address specified for such purpose below such Noteholder's signature at the foot of this Agreement, or by such other method or at such other address as such Noteholder shall have from time to time specified to the Company in writing for such purpose, without the presentation or surrender of such Note or the making of any notation thereon, except that upon written request of the Company made concurrently with or reasonably promptly after payment or prepayment in full of any Note, such Noteholder shall surrender such Note for cancellation, reasonably promptly after any such request, to the Company at its principal executive office or at the place of payment most recently designated by the Company pursuant to Section 14.1. The Company will afford the benefits of this Section 14.2 to any Institutional Investor that is the direct or indirect transferee of any Note purchased by any Noteholder under this Agreement and that has made the same agreement relating to such Note as such Noteholder has made in this Section 14.2.

Section 15. Expenses, Etc.

Section 15.1. Transaction Expenses. Whether or not the transactions contemplated hereby are consummated, the Company will pay all costs and expenses (including reasonable attorneys' fees of a special counsel and, if reasonably required, local or other counsel) incurred by each Noteholder or holder of a Note in connection with such transactions and in connection with any amendments, waivers or consents under or in respect of this Agreement or the Notes (whether or not such amendment, waiver or consent becomes effective), including, without limitation: (a) the costs and expenses incurred in enforcing or defending (or determining whether or how to enforce or defend) any rights under this Agreement or the Notes or in responding to any subpoena or other legal process or informal investigative demand issued in connection with this Agreement or the Notes, or by reason of being a holder of any Note, and (b) the costs and expenses, including financial advisors' fees, incurred in connection with the insolvency or bankruptcy of the Company or any Subsidiary or in connection with any work-out or restructuring of the transactions contemplated hereby and by the Notes. The Company will pay, and will save each Noteholder and each other holder of a Note harmless from, all claims in respect of any fees, costs or expenses, if any, of brokers and finders (other than those retained by such Noteholder or holder).

Section 15.2. Survival. The obligations of the Company under this Section 15 will survive the payment or transfer of any Note, the enforcement, amendment or waiver of any provision of this Agreement or the Notes, and the termination of this Agreement.

Section 16. Survival of Representations and Warranties; Entire Agreement.

All representations and warranties contained herein shall survive the execution and delivery of this Agreement and the Notes, the purchase or transfer by any Noteholder of any Note or portion thereof or interest therein and the payment of any Note, and may be relied upon by any subsequent holder of a Note, regardless of any investigation made at any time by or on behalf of such Noteholder or any other holder of a Note. All statements contained in any certificate or other instrument delivered by or on behalf of the Company pursuant to this Agreement shall be deemed representations and warranties of the Company under this Agreement made as of the date given and qualified to the extent provided therein. Subject to the preceding sentence, this Agreement and the Notes embody the entire agreement and understanding between each Noteholder and the Company and supersede all prior agreements and understandings relating to the subject matter hereof.

Section 17. Amendment and Waiver.

Section 17.1. Requirements. This Agreement and the Notes may be amended, and the observance of any term hereof or of the Notes may be waived (either retroactively or prospectively), with (and only with) the written consent of the Company and the Required Holders, except that (a) no amendment or waiver of any of the provisions of Section 1, 2, 3, 4, 5, 6 or 21 hereof, or any defined term (as it is used therein), will be effective as to any Noteholder unless consented to by such Noteholder in writing, and (b) no such amendment or waiver may,

without the written consent of the holder of each Note at the time outstanding affected thereby, (i) subject to the provisions of Section 12 relating to acceleration or rescission, change the amount or time of any prepayment or payment of principal of, or reduce the rate or change the time of payment or method of computation of interest or of the Make-Whole Amount on, the Notes, (ii) change the percentage of the principal amount of the Notes the holders of which are required to consent to any such amendment or waiver, (iii) amend any of Section 8, 11(a), 11(b), 12, 17 or 20 or (iv) give to any Note any preference over any other Note.

Section 17.2. Solicitation of Holders of Notes.

(a) Solicitation. The Company will provide each holder of the Notes (irrespective of the amount of Notes then owned by it) with sufficient information, sufficiently far in advance of the date a decision is required, to enable such holder to make an informed and considered decision with respect to any proposed amendment, waiver or consent in respect of any of the provisions hereof or of the Notes. The Company will deliver executed or true and correct copies of each amendment, waiver or consent effected pursuant to the provisions of this Section 17 to each holder of outstanding Notes promptly following the date on which it is executed and delivered by, or receives the consent or approval of, the requisite holders of Notes.

(b) Payment. The Company will not directly or indirectly pay or cause to be paid any remuneration, whether by way of supplemental or additional interest, fee or otherwise, or grant any security, to any holder of Notes as consideration for or as an inducement to the entering into by any holder of Notes of any waiver or amendment, waiver or consent effected pursuant to the provisions of this Section 17 unless such remuneration is concurrently paid, or security is concurrently granted, on the same terms, ratably to each holder of Notes then outstanding whether or not such holder consented to such waiver or amendment.

Section 17.3. Binding Effect, Etc. Any amendment or waiver consented to as provided in this Section 17 applies equally to all holders of Notes and is binding upon them and upon each future holder of any Note and upon the Company without regard to whether such Note has been marked to indicate such amendment or waiver. No such amendment or waiver will extend to or affect any obligation, covenant, agreement, Default or Event of Default not expressly amended or waived or impair any right consequent thereon. No course of dealing between the Company and the holder of any Note nor any delay in exercising any rights hereunder or under any Note shall operate as a waiver of any rights of any holder of such Note. As used herein, the term "this Agreement" and references thereto shall mean this Agreement as it may from time to time be amended or supplemented.

Section 17.4. Notes Held by Company, Etc. Solely for the purpose of determining whether the holders of the requisite percentage of the aggregate principal amount of Notes then outstanding approved or consented to any amendment, waiver or consent to be given under this Agreement or the Notes, or have directed the taking of any action provided herein or in the Notes to be taken upon the direction of the holders of a specified percentage of the aggregate principal amount of Notes then outstanding, Notes directly or indirectly owned by the Company or any of its Affiliates shall be deemed not to be outstanding.

Section 18. Notices.

All notices and communications provided for hereunder shall be in writing and sent (a) by telefacsimile if the sender on the same day sends a confirming copy of such notice by a recognized overnight delivery service (charges prepaid), or (b) by registered or certified mail with return receipt requested (postage prepaid), or (c) by a recognized overnight delivery service (with charges prepaid). Any such notice must be sent:

(i) if to a Noteholder or such Noteholder's nominee, to such Noteholder or such Noteholder's nominee at the address specified for such communications below such Noteholder's signature at the foot of this Agreement, or at such other address as such Noteholder or such Noteholder's nominee shall have specified to the Company in writing,

(ii) if to any other holder of any Note, to such holder at such address as such other holder shall have specified to the Company in writing, or

(iii) if to the Company, to the Company at its address set forth at the beginning hereof to the attention of Chief Financial Officer with a copy to the Company's General Counsel, or at such other address as the Company shall have specified to the holder of each Note in writing.

Notices under this Section 18 will be deemed given only when actually received.

Section 19. Reproduction of Documents.

This Agreement and all documents relating thereto, including, without limitation, (a) consents, waivers and modifications that may hereafter be executed, (b) documents received by each Noteholder on the Effective Date (except the Notes themselves), and (c) financial statements, certificates and other information previously or hereafter furnished to each Noteholder, may be reproduced by such Noteholder by any photographic, photostatic, microfilm, microcard, miniature photographic or other similar process and such Noteholder may destroy any original document so reproduced. The Company agrees and stipulates that, to the extent permitted by applicable law, any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made by such Noteholder in the regular course of business) and any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence. This Section 19 shall not prohibit the Company or any other holder of Notes from contesting any such reproduction to the same extent that it could contest the original, or from introducing evidence to demonstrate the inaccuracy of any such reproduction.

Section 20. Confidential Information.

For the purposes of this Section 20, "Confidential Information" means information delivered to any Noteholder by or on behalf of the Company or any Subsidiary in connection

with the transactions contemplated by or otherwise pursuant to this Agreement that is proprietary in nature and that was clearly marked or labeled or otherwise adequately identified when received by such Noteholder as being confidential information of the Company or such Subsidiary, provided that such term does not include information that (a) was publicly known or otherwise known to such Noteholder prior to the time of such disclosure, (b) subsequently becomes publicly known through no act or omission by such Noteholder or any Person acting on such Noteholder's behalf, (c) otherwise becomes known to such Noteholder other than through disclosure by the Company or any Subsidiary or (d) constitutes financial statements delivered to such Noteholder under Section 7.1 that are otherwise publicly available. Each Noteholder will maintain the confidentiality of such Confidential Information in accordance with procedures adopted by such Noteholder in good faith to protect confidential information of third parties delivered to such Noteholder, provided that such Noteholder may deliver or disclose Confidential Information to (i) such Noteholder's directors, trustees, officers, employees, agents, attorneys and affiliates (to the extent such disclosure reasonably relates to the administration of the investment represented by such Noteholder's Notes), (ii) such Noteholder's financial advisors and other professional advisors who agree to hold confidential the Confidential Information substantially in accordance with the terms of this Section 20, (iii) any other holder of any Note, (iv) any Institutional Investor to which such Noteholder sells or offers to sell such Note or any part thereof or any participation therein (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 20), (v) any Person from which such Noteholder offers to purchase any security of the Company (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 20), (vi) any federal or state regulatory authority having jurisdiction over such Noteholder, (vii) the National Association of Insurance Commissioners or any similar organization, or any nationally recognized rating agency that requires access to information about such Noteholder's investment portfolio, or (viii) any other Person to which such delivery or disclosure may be necessary or appropriate (w) to effect compliance with any law, rule, regulation or order applicable to such Noteholder, (x) in response to any subpoena or other legal process, (y) in connection with any litigation to which such Noteholder is a party or (z) if an Event of Default has occurred and is continuing, to the extent such Noteholder may reasonably determine such delivery and disclosure to be necessary or appropriate in the enforcement or for the protection of the rights and remedies under such Noteholder's Notes and this Agreement. Each holder of a Note, by its acceptance of a Note, will be deemed to have agreed to be bound by and to be entitled to the benefits of this Section 20 as though it were a party to this Agreement. On reasonable request by the Company in connection with the delivery to any holder of a Note of information required to be delivered to such holder under this Agreement or requested by such holder (other than a holder that is a party to this Agreement or its nominee or any other holder that shall have previously delivered such a confirmation), such holder will confirm in writing that it is bound by the provisions of this Section 20.

Section 21. Substitution of Noteholder.

Each Noteholder shall have the right to substitute any one of such Noteholder's Affiliates as the purchaser of the Notes that such Noteholder has agreed to purchase hereunder, by written notice to the Company, which notice shall be signed by both such Noteholder and such Noteholder's Affiliate, shall contain such Affiliate's agreement to be bound by this Agreement

and shall contain a confirmation by such Affiliate of the accuracy with respect to it of the representations set forth in Section 6. Upon receipt of such notice, wherever the word "Noteholder" is used in this Agreement (other than in this Section 21), such word shall be deemed to refer to such Affiliate in lieu of such Noteholder. In the event that such Affiliate is so substituted as a purchaser hereunder and such Affiliate thereafter transfers to such Noteholder all of the Notes then held by such Affiliate, upon receipt by the Company of notice of such transfer, wherever the word "Noteholder" is used in this Agreement (other than in this Section 21), such word shall no longer be deemed to refer to such Affiliate, but shall refer to such Noteholder, and such Noteholder shall have all the rights of an original holder of the Notes under this Agreement.

Section 22. Miscellaneous.

Section 22.1. Successors and Assigns. All covenants and other agreements contained in this Agreement by or on behalf of any of the parties hereto bind and inure to the benefit of their respective successors and assigns (including, without limitation, any subsequent holder of a Note) whether so expressed or not. The Company may not assign any of its rights hereunder without the written consent of the holders of the Notes.

Section 22.2. Payments Due on Non-Business Days. Anything in this Agreement or the Notes to the contrary notwithstanding, any payment of principal of or Make-Whole Amount or interest on any Note that is due on a date other than a Business Day shall be made on the next succeeding Business Day without including the additional days elapsed in the computation of the interest payable on such next succeeding Business Day.

Section 22.3. Severability. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall (to the full extent permitted by law) not invalidate or render unenforceable such provision in any other jurisdiction.

Section 22.4. Construction. Each covenant contained herein shall be construed (absent express provision to the contrary) as being independent of each other covenant contained herein, so that compliance with any one covenant shall not (absent such an express contrary provision) be deemed to excuse compliance with any other covenant. Where any provision herein refers to action to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such Person.

Section 22.5. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies hereof, each signed by fewer than all, but together signed by all, of the parties hereto.

Section 22.6. Governing Law. This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of Illinois excluding choice-of-law principles of the law of such State that would require the application of the laws of a jurisdiction other than such State.

* * * * *

The execution hereof by the Noteholders shall constitute a contract among the Company and the Noteholders for the uses and purposes hereinabove set forth.

Very truly yours,

Stepan Company

By _____
Name:
Title:

The foregoing is hereby agreed to as of the date thereof.

The Northwestern Mutual Life Insurance Company

By _____
Name:
Its Authorized Representative

Thrivent Financial for Lutherans (f/k/a Aid Association for Lutherans)

By _____
Name:
Title:

J. Romeo & Co.

By _____
Name:
Title:

Principal Amount of Notes
to be Exchanged

THE NORTHWESTERN MUTUAL LIFE
INSURANCE COMPANY
720 East Wisconsin Avenue
Milwaukee, Wisconsin 53202
Attention: Securities Department
Telecopier Number: (414) 665-7124

\$2,500,000 - Series A
\$2,500,000 - Series B

Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as "Stepan Company, 7.22% Amended and Restated Senior Notes Series A, due April 1, 2008, PPN 858586 G* 5, principal, premium or interest and Stepan Company 7.22% Amended and Restated Senior Notes, Series B, due August 1, 2008, PPN 858586 G@ 3, principal, premium or interest") to:

Bankers Trust Company
ABA #021-001-033
16 Wall Street
Insurance Unit, 4th Floor
New York, New York 10005

for credit to: The Northwestern Mutual Life Insurance Company
Account Number 00-000-027

Notices

All notices and communications to be addressed as first provided above, except notices with respect to payments and written confirmation of each such payment to be addressed, Attention: Investment Operations, Fax Number: (414) 625-6998.

Name of Nominee in which Notes are to be issued: None

Taxpayer I.D. Number: 39-0509570

Schedule A
(to Amended and Restated Note Agreement)

Principal Amount of Notes
to be Exchanged

MONY LIFE INSURANCE COMPANY
1740 Broadway
New York, New York 10019
Attention: Capital Management Unit
Fax Number: (212) 708-2491

\$2,500,000 - Series A
\$2,500,000 - Series B

Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as "Stepan Company, 7.22% Senior Notes, Series A, due April 1, 2008 PPN 858586 G* 5, principal, premium or interest and Stepan Company, 7.22% Senior Notes, Series B, due August 1, 2008 PPN 858586 G@ 3, principal, premium or interest") to:

JP Morgan Chase Manhattan Bank
ABA #021000021
For credit to Private Income Processing Account No. 900-9000-200
For further credit to Account G52963

Notices

All notices of payment on or in respect of the Notes and written confirmation of each such payment to:

A. To JP Morgan Chase Manhattan Bank:

(1) If by Regular Mail, Registered Mail, Certified Mail or Federal Express to:

JP Morgan Chase Manhattan Bank
14201 N. Dallas Parkway
13th Floor
Dallas, Texas 75254-2917

(2) If by fax to:

JP Morgan Chase Manhattan Bank
(469) 477-1904

B. With a Second Copy to Mony Life Insurance Company:

(1) If by Regular Mail, Registered Mail, Certified Mail or Federal Express to:

MONY Life Insurance Company
1740 Broadway
New York, NY 10019
Attention: Securities Custody Division
M.D. 6-39A

(2) If by fax to:

(212) 708-2152
Attention: Securities Custody Division
M.D. 6-39A

C. Addresses for All Other Communications

MONY Capital Management, Inc.
c/o MONY Life Insurance Company
1740 Broadway
New York, NY 10019
Telecopy No.: (212) 708-2491

Name of Nominee in which Notes are to be issued: J. ROMEO & Co.
MONY Life Insurance Company Taxpayer I.D. Number: 13-1632487

Principal Amount of Notes
to be Exchanged

THRIVENT FINANCIAL FOR LUTHERANS
4321 North Ballard Road
Appleton, Wisconsin 54919
Attention: Investment Department

\$2,500,000 - Series A
\$2,500,000 - Series B

Payments

All payments of principal, interest and premium on the account of the Notes shall be made by bank wire transfer (in immediately available funds) to:

Citibank, N.A.
ABA #021-000-089
DDA #36126473
Attn: Ann Siberon
Ref Account #846647
Thrivent Financial for Lutherans Custody Account
Stepan Company 7.22% Senior Notes, Series A and Series B, due 2008
Private Placement Numbers: Series A: 858586 G* 5; Series B 858586 G@ 3
Reference Purpose of Payment
Principal and Interest Breakdown

Notices

All notices on or in respect to the Notes and written confirmation of each such payment to be addressed to:

Investment Department
Thrivent Financial for Lutherans
222 West College Avenue, Floor 9
Appleton, Wisconsin 54911
Fax: 920-628-3752

and

Income Collection & Disbursement
Attn: Gay Quitsch
Account #846647
Thrivent Financial for Lutherans Custody Account
3800 Citicorp Center Tampa
Building B, Floor 1, Zone 7
Tampa, Florida 33610-9122
Fax: 813-604-1100

Name of Nominee in which Notes are to be issued: None

Taxpayer I.D. Number for Thrivent Financial for Lutherans: 39-0123480

DEFINED TERMS

Where the character or amount of any asset or liability or item of income or expense is required to be determined or any consolidation or other accounting computation is required to be made for the purposes of this Agreement, the same shall be done in accordance with GAAP, to the extent applicable, except where such principles are inconsistent with the express requirements of this Agreement.

Where any provision in this Agreement refers to action to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether the action in question is taken directly or indirectly by such Person.

As used herein, the following terms have the respective meanings set forth below or set forth in the Section hereof following such term:

"Affiliate" means, at any time, and with respect to any Person, (a) any other Person that at such time directly or indirectly through one or more intermediaries Controls, or is Controlled by, or is under common Control with, such first Person, and (b) any Person beneficially owning or holding, directly or indirectly, 10% or more of any class of voting or equity interests of the Company or any Subsidiary or any corporation of which the Company and its Subsidiaries beneficially own or hold, in the aggregate, directly or indirectly, 10% or more of any class of voting or equity interests. As used in this definition, "Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. Unless the context otherwise clearly requires, any reference to an "Affiliate" is a reference to an Affiliate of the Company.

"Assets" of any corporation means, at any date, the gross book value as shown by the books of such corporation in accordance with GAAP of all its property, whether real, personal or mixed (exclusive of franchises, licenses, permits, patents, patent applications, copyrights, trademarks, trade names, good will, experimental or organizational expense, leasehold improvements not recoverable at the expiration of a lease, unamortized debt discount and expense, deferred charges and other intangibles and treasury stock), less the sum (without duplication) of (a) all reserves for depreciation, depletion, obsolescence and amortization of its properties (other than properties excluded as hereinabove provided) as shown by the books of such corporation and all other proper reserves which in accordance with GAAP should be set aside in connection with the business conducted by such corporation, other than reserves for contingencies not allocated to any particular purpose; and (b) the amount of any write-up subsequent to December 31, 1986 in the book value of any asset owned by such corporation on such date resulting from the revaluation thereof subsequent to such date, or any write-up in excess of the cost of any asset acquired by such corporation subsequent to such date.

"Business Day" means (a) for the purposes of Section 8.7 only, any day other than a Saturday, a Sunday or a day on which commercial banks in New York City are required or authorized to be closed, and (b) for the purposes of any other provision of this Agreement, any

Schedule B
(to Amended and Restated Note Agreement)

day other than a Saturday, a Sunday or a day on which commercial banks in Chicago, Illinois, or New York, New York are required or authorized to be closed.

"Capitalized Lease" means any lease which, in accordance with GAAP, is of such a nature that payment obligations of the lessee thereunder shall have been or should be capitalized and shown as liabilities (other than current Indebtedness) upon the balance sheet of such lessee.

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

"Code" means the Internal Revenue Code of 1986, as amended from time to time, and the rules and regulations promulgated thereunder from time to time.

"Company" means Stepan Company, a Delaware corporation.

"Confidential Information" is defined in Section 20.

"Consolidated," when used in respect of the Assets, Current Indebtedness and Funded Indebtedness of the Company and its Restricted Subsidiaries means the aggregate of the assets, Current Assets, Current Indebtedness, Funded Indebtedness, respectively, of the Company and its Restricted Subsidiaries, after eliminating all intercompany items and all other items which should be eliminated in accordance with GAAP; provided, however, in determining Consolidated Assets, there shall not be included therein any amount on account of the excess of (i) the cost of acquisition of shares of any Subsidiary over the book value of the assets of such Subsidiary attributable to such shares on the books of such Subsidiary at the date of acquisition of such shares, or (ii) the book value of the assets of such Subsidiary attributable to such shares at the date of such acquisition over the cost of acquisition of such shares; provided, further, in determining Consolidated Funded Indebtedness, there shall not be included therein any duplication of Indebtedness that may arise from the guaranty by a Restricted Subsidiary of Indebtedness of the Company which constitutes Specified Subsidiary Indebtedness.

"Consolidated Capitalization" means the sum of (i) Consolidated Funded Indebtedness of the Company and its Restricted Subsidiaries, plus (ii) Consolidated Tangible Net Worth.

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

"Consolidated Net Income" means the aggregate of the net income of the Company and its Restricted Subsidiaries, after eliminating all intercompany items and portions of income properly attributable to minority interest in the stock of such Subsidiaries, all computed in accordance with GAAP.

"Consolidated Tangible Net Worth" means the aggregate of the Tangible Net Worth of the Company and its Restricted Subsidiaries, consolidated in accordance with GAAP.

"corporation" shall include corporations, joint stock companies and business trusts.

"Current Indebtedness" means all Indebtedness other than Funded Indebtedness, and, without limitation, shall include (a) all Indebtedness maturing on demand or within one year after the date as of which such determination is made, (b) final maturities and prepayments of Indebtedness and sinking fund payments (including, with respect to the Notes, not only (i) fixed prepayments, but also (ii) other prepayments on and after the date of notice of prepayment thereof pursuant to Sections 8.2 and 8.3) required to be made in respect of any Indebtedness within one year after said date, and (c) all other items (including taxes accrued as estimated) which in accordance with GAAP would be included as current liabilities.

"Default" means an event or condition the occurrence or existence of which would, with the lapse of time or the giving of notice or both, become an Event of Default.

"Default Rate" means that rate of interest that is the greater of (i) 2.00% per annum above the rate of interest stated in clause (a) of the first paragraph of the Notes or (ii) the rate of interest publicly announced by Bank One, N.A. in Chicago, Illinois as its "base" or "prime" rate.

"Definitive Agreement" means any binding, definitive written agreement with respect to any proposed transaction, event or series of transactions or events which, when fully performed, is reasonably likely to result in a Change of Control, excluding in all cases, letters of intent, proposals or similar non-definitive expressions of interest.

"Dilution" means (a) any decrease in the percentage of capital stock and other equity securities of a Restricted Subsidiary beneficially owned, directly or indirectly, by the Company and its Wholly-Owned Subsidiaries resulting from a sale, assignment, transfer or other disposition of capital stock or equity securities of a Restricted Subsidiary or (b) any increase in the minority interests in the capital stock and equity securities of a Restricted Subsidiary as a result of the issuance of capital stock and equity securities by a Restricted Subsidiary to a Person other than the Company or a Wholly-Owned Restricted Subsidiary. For purposes of determining compliance with Section 10.8, the value of any "Dilution" shall be an amount equal to the fair value of that portion of the assets of the relevant Subsidiary determined by multiplying the percentage of the capital stock and other equity securities of such Subsidiary constituting a Dilution by the fair value of all assets of such Subsidiary (assuming, in making such calculations, that all securities convertible into capital stock are so converted and giving full effect to all transactions that would occur or be required in connection with such conversion), determined at the time of the Dilution in good faith by the Company and subject to the approval of the Required Holders (which shall not be unreasonably withheld or delayed).

"Effective Date" is defined in Section 3.1.

"Environmental Laws" means any and all applicable Federal, state, local, and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions,

grants, franchises, licenses, agreements or governmental restrictions relating to public health, safety or the environment, including, without limitation, relating to releases, discharges, emissions or disposals to air, water, land or ground water, to the withdrawal or use of ground water, to the use, handling or disposal of polychlorinated biphenyls (PCB's), asbestos or urea formaldehyde, to the treatment, storage, disposal or management of hazardous substances (including, without limitation, petroleum, its derivatives, by-products or other hydrocarbons), to exposure to toxic, hazardous or other controlled, prohibited or regulated substances, or to the transportation, storage, disposal, management or release of gases or liquid substances.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

"ERISA Affiliate" means any trade or business (whether or not incorporated) that is treated as a single employer together with the Company under Section 414 of the Code.

"Event of Default" is defined in Section 11.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Fixed Payment Date" is defined in Section 8.1.

"Funded Indebtedness" means all Indebtedness (including capitalized payment obligations under Capitalized Leases) which by its terms matures more than one year from the date as of which any calculation of Funded Indebtedness is made. Funded Indebtedness shall also include the amount by which vested benefits under employee pension benefit plans exceeds the value of assets of such plans allocable to such vested benefit, if any.

"GAAP" means generally accepted accounting principles as in effect from time to time in the United States of America.

"Governmental Authority" means

(a) the government of

(i) the United States of America or any State or other political subdivision thereof, or

(ii) any jurisdiction in which the Company or any Subsidiary conducts all or any part of its business, or which asserts jurisdiction over any properties of the Company or any Subsidiary, or

(b) any entity exercising executive, legislative, judicial, regulatory or administrative functions of, or pertaining to, any such government.

"Guaranty" means, with respect to any Person, any obligation (except the endorsement in the ordinary course of business of negotiable instruments for deposit or collection) of such Person guaranteeing or in effect guaranteeing any indebtedness, dividend or other obligation of any other Person in any manner, whether directly or indirectly, including (without limitation) obligations incurred through an agreement, contingent or otherwise, by such Person:

(a) to purchase such indebtedness or obligation or any property constituting security therefor;

(b) to advance or supply funds (i) for the purchase or payment of such indebtedness or obligation, or (ii) to maintain any working capital or other balance sheet condition or any income statement condition of any other Person or otherwise to advance or make available funds for the purchase or payment of such indebtedness or obligation;

(c) to lease properties or to purchase properties or services primarily for the purpose of assuring the owner of such indebtedness or obligation of the ability of any other Person to make payment of the indebtedness or obligation; or

(d) otherwise to assure the owner of such indebtedness or obligation against loss in respect thereof.

In any computation of the indebtedness or other liabilities of the obligor under any Guaranty, the indebtedness or other obligations that are the subject of such Guaranty shall be assumed to be direct obligations of such obligor.

"Hazardous Material" means any and all pollutants, toxic or hazardous wastes or any other substances that might pose a hazard to health or safety, the removal of which may be required or the generation, manufacture, refining, production, processing, treatment, storage, handling, transportation, transfer, use, disposal, release, discharge, spillage, seepage, or filtration of which is or shall be restricted, prohibited or penalized by any applicable law (including, without limitation, asbestos, urea formaldehyde foam insulation and polychlorinated biphenyls).

"holder" means, with respect to any Note, the Person in whose name such Note is registered in the register maintained by the Company pursuant to Section 13.1.

"Indebtedness" with respect to any Person means, at any time, without duplication,

(a) its liabilities for borrowed money and its redemption obligations in respect of mandatorily redeemable preferred stock;

(b) its liabilities for the deferred purchase price of property acquired by such Person (excluding accounts payable arising in the ordinary course of business but including all liabilities created or arising under any conditional sale or other title retention agreement with respect to any such property);

(c) all liabilities appearing on its balance sheet in accordance with GAAP in respect of Capitalized Leases;

(d) all liabilities for borrowed money secured by any Lien with respect to any property owned by such Person (whether or not it has assumed or otherwise become liable for such liabilities);

(e) all its liabilities in respect of letters of credit or instruments serving a similar function issued or accepted for its account by banks and other financial institutions (whether or not representing obligations for borrowed money);

(f) Swaps of such Person; and

(g) any Guaranty of such Person with respect to liabilities of a type described in any of clauses (a) through (f) hereof.

Indebtedness of any Person shall include all obligations of such Person of the character described in clauses (a) through (g) to the extent such Person remains legally liable in respect thereof notwithstanding that any such obligation is deemed to be extinguished under GAAP.

"Institutional Investor" means (a) any original purchaser of a Note, (b) any holder of a Note holding more than 5% of the aggregate principal amount of the Notes then outstanding, and (c) any bank, trust company, savings and loan association or other financial institution, any pension plan, any investment company, any insurance company, any broker or dealer, or any other similar financial institution or entity, regardless of legal form.

"Interest Expense" means with respect to any period for which the amount thereof is to be determined, an amount equal to interest expense on Indebtedness, including payments in the nature of interest under Capitalized Lease Obligations and the discount or implied interest component of Off-Balance Sheet Liabilities, as determined in accordance with GAAP. Interest Expense determined on a consolidated basis for the Company and its Restricted Subsidiaries will be referred to herein as "Consolidated Interest Expense."

"Investment" shall include any Investment, in cash or by the delivery of other property (except against receipt of the fair value thereof in cash or in the ordinary course of business), whether by acquisition of stock, securities or other Indebtedness, or by loan, advance, capital contribution, transfer of property or otherwise; provided, however, that (a) the acquisition of stock, securities or other Indebtedness of, or a loan, advance capital contribution or transfer of property to, a Restricted Subsidiary (or a corporation which by reason of such transaction will become a Restricted Subsidiary) by the Company or one of its Restricted Subsidiaries, or (b) the purchase, acquisition or ownership by the Company or a Restricted Subsidiary of (i) readily marketable securities issued by states or municipalities within the United States of America or agencies or subdivisions thereof rated "A" or better by any recognized rating agency, (ii) direct obligations of, or obligations unconditionally guaranteed by, the United States of America or any agency thereof, (iii) commercial paper maturing within not more than 270 days from the date of issuance thereof which is issued by any corporation organized and doing business under the laws

of the United States of America or any state thereof and which is rated "Prime 1" by Moody's Investors Service, Inc. or "A-1" by Standard and Poor's Corporation (or comparably rated by such organizations or any successors thereto if the rating system is changed or there are such successors), (iv) certificates of deposit issued by any commercial bank organized and doing business under the laws of the United States of America or any state thereof and having (x) capital, surplus and undivided profits aggregating more than \$50,000,000, and (y) outstanding commercial paper which, at the time of acquisition of such certificates of deposit by the Company or any Restricted Subsidiary is rated "Prime 1" by Moody's Investors Service, Inc. or "A-1" by Standard and Poor's Corporation (or comparably rated by such organizations or any successors thereto if the rating system is changed or there are any successors), and (v) trade accounts payable to the Company or a Restricted Subsidiary within six months from the date such liability arose, shall not be deemed an "Investment." In addition, Investments of the Company existing on the Effective Date and described on Schedule 10.5 hereto, shall not be deemed "Investments."

"Lien" means, with respect to any Person, any mortgage, lien, pledge, charge, security interest or other encumbrance, or any interest or title of any vendor, lessor, lender or other secured party to or of such Person under any conditional sale or other title retention agreement or Capital Lease, upon or with respect to any property or asset of such Person (including in the case of stock, stockholder agreements, voting trust agreements and all similar arrangements).

"Make-Whole Amount" is defined in Section 8.7.

"Material" means material in relation to the business, operations, affairs, financial condition, assets, properties, or prospects of the Company and its Subsidiaries taken as a whole.

"Material Adverse Effect" means a material adverse effect on (a) the business, operations, affairs, financial condition, assets or properties of the Company and its Subsidiaries taken as a whole, or (b) the ability of the Company to perform its obligations under this Agreement and the Notes, or (c) the validity or enforceability of this Agreement, the Notes or any Subsidiary Guaranty.

"Multiemployer Plan" means any Plan that is a "multiemployer plan" (as such term is defined in Section 4001(a)(3) of ERISA).

"Net Income" of any corporation for any fiscal period shall mean the net income (or the net deficit, if expenses and charges exceed revenues and other proper income credits) of such corporation for such period, determined in the following manner:

(a) the gross revenues and other proper income credits of such corporation shall be computed for such period in accordance with GAAP; provided that in any event there shall not be included in such gross revenues and income credits any write up in the book value of any asset resulting from the revaluation thereof; and

(b) from the amount of such gross revenues and other proper income credits for such period determined as provided in the preceding clause (a), there shall be

deducted an amount equal to the aggregate of all expenses and other proper income charges for such period, determined in accordance with GAAP but in any event deducting (without in any respect limiting the generality of the foregoing) the following items: (i) all interest charges; (ii) amortization of debt discount and expense and any other amortization of deferred charges properly subject to amortization; (iii) provision for all taxes whether in respect of property, income, excess profits or otherwise; (iv) provisions for all contingency and other reserves whether general or special; and (v) provision for depreciation, depletion, obsolescence and amortization of the properties of such corporation (including depreciation and amortization of leasehold improvements) in amounts not less than the aggregate amount actually deducted on its books and not less than the aggregate amount claimed (but adjusted for any disallowance) or to be claimed by such corporation for federal income tax purposes for such period; provided, however, that in lieu of accelerated depreciation permitted under the Code, the corporation may at its option provide for depreciation and amortization in amounts based on the normal rates customarily employed by the corporation for identical or similar types of property in the preparation of its audited financial statements, and in such event the corporation shall establish and shall maintain in accordance with GAAP an appropriate reserve in respect of any tax savings as a result of charging for tax purposes such accelerated depreciation or accelerated amortization;

provided that, in determining the amount to be included in clauses (a) and (b) above, (i) any federal tax adjustments for any period prior to January 1, 2002 shall not be a proper charge or credit to income for any period subsequent to that date, and any federal tax adjustment for any period subsequent to December 31, 2001 shall be included as a proper charge or credit to income for the year in which actually received or paid, except to the extent, if any, to which the amount of such latter adjustment is charged to a proper reserve for federal taxes set up out of income for any period subsequent to December 31, 2001; (ii) any adjustments for any period prior to January 1, 2002 resulting from any renegotiation or price redetermination in respect of any Government prime contract, or any subcontract under any Government prime contract, shall not be included as a proper charge or credit to income for any period subsequent to that date, and any such renegotiation or price redetermination adjustment for any period subsequent to December 31, 2001 shall be included as a proper charge or credit to income for the year in which actually received or paid, except to the extent, if any, to which the amount of such adjustment is charged to a proper reserve for renegotiation or price redetermination set up out of income for any period subsequent to December 31, 2001; (iii) any earnings of, and dividends payable to, such corporation in currencies which at the time are blocked against conversion into United States currency shall not be included as a proper charge or credit to income for any period subsequent to December 31, 2001; (iv) any undistributed earnings of, and dividends payable by, unconsolidated Subsidiaries or any other person (other than a Restricted Subsidiary) shall not be included as a proper charge or credit to income for any period subsequent to December 31, 2001; (v) any gains on the sale or other disposition of capital assets and taxes on such excluded gains shall not be included as a proper charge or credit to income for any period subsequent to December 31, 2001; (vi) net earnings and losses of any corporation (other than a Subsidiary) substantially all the assets of which have been acquired in any manner, realized by such other corporation prior to the date of acquisition shall not be included as a proper charge or credit to income for any period subsequent to December 31, 2001; (vii) net earnings or losses of any

corporation (other than a Restricted Subsidiary) with which the Company or a Restricted Subsidiary shall have consolidated or which shall have merged into or with the Company or a Restricted Subsidiary prior to the date of such consolidation or merger shall not be included as a proper charge or credit to income for any period subsequent to December 31, 2001; and (viii) any portion of the net earnings of any Restricted Subsidiary which for any reason is unavailable for the payment of dividends to the Company or any other Restricted Subsidiary shall not be included as a proper credit to income for any period subsequent to December 31, 2001. The term "capital assets" of any corporation as used herein shall include all fixed assets, both tangible (such as land, buildings, machinery and equipment) and intangible (such as patents, copyrights, trademarks, trade names, formulae and good will), and securities.

"Notes" is defined in Section 1.

"Off-Balance Sheet Liability" of a Person means (i) any repurchase obligation or liability of such Person or any of its Subsidiaries with respect to accounts or notes receivable sold by such Person or any of its Subsidiaries (calculated to include the unrecovered investment of purchasers or transferees of accounts or any other obligation of such Person or such transferor to purchasers/transferees of interests in accounts or notes receivable or the agent for such purchasers/transferees), (ii) any liability under any sale and leaseback transaction which is not a Capitalized Lease, (iii) any liability under any financing lease or Synthetic Lease or "tax ownership operating lease" transaction entered into by such Person, including any Synthetic Lease Obligations, or (iv) any obligation arising with respect to any other transaction which is the functional equivalent of or takes the place of borrowing but which does not constitute a liability on the balance sheets of such Person, but excluding from this clause (iv) Operating Leases.

"Officer's Certificate" means a certificate of a Senior Financial Officer or of any other officer of the Company whose responsibilities extend to the subject matter of such certificate.

"Operating Lease" of a Person means any lease of Property (other than a Capitalized Lease) by such Person as lessee which has an original term (including any required renewals and any renewals effective at the option of the lessor) of one year or more.

"PBG" means the Pension Benefit Guaranty Corporation referred to and defined in ERISA or any successor thereto.

"Permitted Guaranties" means and includes each unsecured Guaranty by a Subsidiary of the Company's obligations under (a) the Revolving Credit Agreement and (b) the Company's then outstanding private placement note purchase agreements, provided that the Indebtedness of such Subsidiary under each such Guaranty qualifies as Specified Subsidiary Indebtedness.

"Person" means an individual, partnership, corporation, limited liability company, association, trust, unincorporated organization, or a government or agency or political subdivision thereof.

"Plan" means an "employee benefit plan" (as defined in Section 3(3) of ERISA) that is or, within the preceding five years, has been established or maintained, or to which contributions are or, within the preceding five years, have been made or required to be made, by the Company or any ERISA Affiliate or with respect to which the Company or any ERISA Affiliate may have any liability.

"property" or "properties" means, unless otherwise specifically limited, real or personal property of any kind, tangible or intangible, choate or inchoate.

"QPAM Exemption" means Prohibited Transaction Class Exemption 84-14 issued by the United States Department of Labor.

"Required Holders" means, at any time, the holders of at least 51% in principal amount of the Notes at the time outstanding (exclusive of Notes then owned by the Company or any of its Affiliates).

"Responsible Officer" means any Senior Financial Officer and any other officer of the Company with responsibility for the administration of the relevant portion of this Agreement.

"Restricted Subsidiary" means any Subsidiary of the Company which (a) is organized under the laws of any state of the United States of America or under the laws of Canada or any province thereof, (b) has substantially all of its assets located within, and operates substantially within, the United States of America or Canada, (c) at least 50% of the outstanding voting stock having ordinary voting power to elect a majority of the Board of Directors of such corporation (irrespective of whether or not at the time stock of any other class or classes shall have or might have voting power by reason of the happening of any contingency) is at the time directly or indirectly owned by the Company, by one or more of its Wholly-Owned Restricted Subsidiaries or by the Company and one or more of its Wholly-Owned Restricted Subsidiaries, and (d) which the Company designates as a Restricted Subsidiary, by notice to the holders of the Notes in the manner provided in Section 18; provided, however, that the Company may not designate any Unrestricted Subsidiary as a Restricted Subsidiary, or any Restricted Subsidiary as an Unrestricted Subsidiary, unless at the time of such designation, and after giving effect thereto, no Default or event which the passage of time or giving of notice, or both, would constitute an Event of Default would exist; and provided further that the Company may not subsequently change the designation of any Subsidiary from Restricted Subsidiary to Unrestricted Subsidiary, or from Unrestricted Subsidiary to Restricted Subsidiary, unless (w) the Company shall have given not less than 10 days' prior notice to the holders of the Notes that a Responsible Officer has made such a determination, (x) at the time of such designation and, on a pro forma basis, treating such designation as having occurred on the last day of the immediately preceding fiscal quarter, no Default or event which the passage of time or giving of notice, or both, would constitute an Event of Default would exist, (y) any designation of a Restricted Subsidiary to an Unrestricted Subsidiary is treated as a sale of assets subject to the provisions of Section 10.8 and immediately after such designation and after giving effect thereto, no Default or Event of Default shall have occurred and be continuing under Section 10.8 and (z)(i) a Subsidiary initially designated a Restricted Subsidiary shall not subsequently be designated an Unrestricted Subsidiary more than once or subsequently be designated a Restricted Subsidiary more than once

and (ii) a Subsidiary initially designated an Unrestricted Subsidiary shall not subsequently be designated a Restricted Subsidiary more than once or subsequently be designated an Unrestricted Subsidiary more than once. For all purposes of this Agreement, the Company shall, on Schedule 5.4, designate each Subsidiary which exists as of the Effective Date as an Unrestricted Subsidiary.

"Revolving Credit Agreement" means that certain Revolving Credit Agreement dated as of May 3, 2002 among the Company, Bank One, N.A., as Agent and the other financial institutions named therein, such term to include any credit facility or other instrument evidencing borrowed money replacing all or part of such Revolving Credit Agreement.

"Securities Act" means the Securities Act of 1933, as amended from time to time.

"Senior Financial Officer" means the chief financial officer, principal accounting officer, treasurer or comptroller of the Company.

"Series A Notes" is defined in Section 1.

"Series B Notes" is defined in Section 1.

"Specified Subsidiary Indebtedness" means Indebtedness of Subsidiaries consisting of unsecured Guaranties of the Company's obligations under and pursuant to (a) the Revolving Credit Agreement and (b) each of the Company's then outstanding private placement note purchase agreements and notes, provided that, within the time period required by Section 9.8 of this Agreement, the Company shall have executed and delivered, or shall have caused to be executed and delivered, to the holders of the Notes (i) an executed counterpart of a Subsidiary Guaranty or joinder agreement in respect of an existing Subsidiary Guaranty, from each of the Subsidiaries guaranteeing the Company's obligations under such Revolving Credit Agreement, and (ii) an executed counterpart of an intercreditor agreement among the holders of the Notes, each Person which is a party to the Revolving Credit Agreement as a lender or creditor (or an authorized agent on their behalf), each holder of the Company's other private placement notes then outstanding, the Company and each such guaranteeing Subsidiary, all as and to the extent required by Section 9.8 of this Agreement.

"Subsidiary" means, as to any Person, any corporation, association or other business entity in which such Person or one or more of its Subsidiaries or such Person and one or more of its Subsidiaries owns sufficient equity or voting interests to enable it or them (as a group) ordinarily, in the absence of contingencies, to elect a majority of the directors (or Persons performing similar functions) of such entity, and any partnership or joint venture if more than a 50% interest in the profits or capital thereof is owned by such Person or one or more of its Subsidiaries or such Person and one or more of its Subsidiaries (unless such partnership can and does ordinarily take major business actions without the prior approval of such Person or one or more of its Subsidiaries). Unless the context otherwise clearly requires, any reference to a "Subsidiary" is a reference to a Subsidiary of the Company.

"Subsidiary Guarantors" is defined in Section 9.8.

"Subsidiary Guaranty" means any Guaranty of any Subsidiary with respect to the payment of the Notes and all other sums due and owing by the Company under this Agreement, which Guaranty shall be in form and substance reasonably satisfactory to the Required Holders.

"Substantially-Owned Restricted Subsidiary" means any Restricted Subsidiary 90% or more of the equity interests (other than directors' qualifying shares) and voting interests at the time are owned directly or indirectly by the Company, or by one or more of its Substantially-Owned Restricted Subsidiaries or by the Company and one or more of its Substantially-Owned Restricted Subsidiaries.

"substantial part" is defined in Section 10.8.

"Swaps" means, with respect to any Person, payment obligations with respect to interest rate swaps, currency swaps and similar obligations obligating such Person to make payments, whether periodically or upon the happening of a contingency. For the purposes of this Agreement, the amount of the obligation under any Swap shall be the amount determined in respect thereof as of the end of the then most recently ended fiscal quarter of such Person, based on the assumption that such Swap had terminated at the end of such fiscal quarter, and in making such determination, if any agreement relating to such Swap provides for the netting of amounts payable by and to such Person thereunder or if any such agreement provides for the simultaneous payment of amounts by and to such Person, then in each such case, the amount of such obligation shall be the net amount so determined.

"Synthetic Lease" means each so-called synthetic, off-balance sheet or tax retention lease or other arrangement, however described, under which (a) the obligor accounts for its interest in the property covered thereby under GAAP as lessee of a lease which is not a capital lease and accounts for its interest in the property covered thereby for Federal income tax purposes as the owner or (b) the obligations of the obligor do not appear on the balance sheet of such obligor but which, upon the insolvency or bankruptcy of such obligor, would be characterized as the indebtedness of such obligor (without regard to accounting treatment).

"Synthetic Lease Obligation" means the monetary obligation of a Person under a Synthetic Lease.

"Tangible Net Worth" of any corporation shall mean the sum of the amounts set forth on the balance sheet of such corporation, prepared in accordance with GAAP and as of any date selected by such corporation not more than 45 days prior to the taking of any action for the purpose of which the determination is being made, which appears as (a) the par or stated value of all outstanding stock, (b) capital, paid-in and earned surplus and (c) long term deferred tax liabilities, less the sum of (i) any surplus resulting from any write-up of assets, (ii) good will, including any amounts (however designated on such balance sheet) representing the cost of acquisitions of Restricted Subsidiaries in excess of underlying tangible assets, unless an appraisal of such assets made by a reputable firm of appraisers at the time of acquisition shall indicate sufficient value to cover such excess, (iii) any amounts by which Investments in persons appearing on the asset side of such balance sheet exceed the lesser of cost or the proportionate share of such corporation in the book value of the assets of such persons, provided that such book

value shall be reduced by any amounts representing restrictions on the payment of dividends by such persons pursuant to any law, charter provision, mortgage or indenture or, in lieu of the foregoing, any Investment may be carried at its market value if the securities representing such Investment are publicly traded, (iv) patents, trademarks, copyrights, leasehold improvements not recoverable at the expiration of a lease and deferred charges (including, but not limited to, unamortized debt discount and expense, organization expenses, experimental and development expenses, but excluding prepaid expenses), (v) any amounts at which shares of capital stock of such corporation appear on the asset side of such balance sheet, (vi) any amount of Indebtedness not included on the liability side of such balance sheet and (vii) other comprehensive income or expense (as defined by GAAP), to the extent included in subclause (a), (b) or (c) above.

"10-K" is defined in Section 5.3.

"10-Qs" is defined in Section 5.3.

"Unrestricted Subsidiary" means any Subsidiary other than a Subsidiary which has been designated a Restricted Subsidiary. Any Subsidiary which is not expressly designated a Restricted Subsidiary or an Unrestricted Subsidiary shall be deemed designated an Unrestricted Subsidiary.

"Wholly-Owned Restricted Subsidiary" means any Restricted Subsidiary all of the equity interests (other than directors' qualifying shares) and voting interests at the time is owned directly or indirectly by the Company, or by one or more of its Wholly-Owned Restricted Subsidiaries or by the Company and one or more of its Wholly-Owned Restricted Subsidiaries.

SCHEDULE 4.9
CHANGES IN CORPORATE STRUCTURE

None.

Schedule 4.9
(to Amended and Restated Note Agreement)

SCHEDULE 5.4
SUBSIDIARIES OF THE COMPANY AND OWNERSHIP OF SUBSIDIARY STOCK

Subsidiaries of the Company

Corporate Name	Jurisdiction of Incorporation or Formation	Percentage of Shares Held or Beneficially Owned	Restricted Subsidiary (Y/N)
Stepan Europe S.A.	France	100%	N
Stepan Canada, Inc.	Canada	100%	N
Stepan Mexico, S.A. de C.V.	Mexico	100%	N
Stepan Quimica Ltda.	Brazil	100%	N
Stepan Colombiana de Quimicos	Colombia	100%	N
Stepan UK Limited	England and Wales	100% (by Stepan Europe S.A.)	N
Stepan Deutschland GmbH	Germany	100% (by Stepan Europe S.A.)	N

Affiliates of the Company

Corporate Name	Jurisdiction of Incorporation or Formation	Percentage of Shares Held or Beneficially Owned	Restricted Subsidiary (Y/N)
Stepan Philippines S.A. (Joint Venture)	Philippines	50%	N

Directors and Senior Officers of the Company

Name	Title/Office
F. Quinn Stepan	Chairman and Chief Executive Officer
F. Quinn Stepan, Jr.	President and Chief Operating Officer and Director
John V. Venegoni	Vice President and General Manager - Surfactants

Schedule 5.4
(to Amended and Restated Note Agreement)

Directors and Senior Officers of the Company (cont'd)

Robert J. Wood	Vice President and General Manager - Polymers
F. Samuel Eberts III	Vice President, General Counsel and Secretary
Anthony J. Zoglo	Vice President - Manufacturing and Engineering
James E. Hurlbutt	Vice President and Corporate Controller
Kathleen M. Owens	Senior Attorney and Assistant Corporate Secretary
James A. Hartlage	Director
Thomas F. Grojean	Director
Paul H. Stepan	Director
Robert D. Cadieux	Director
Robert G. Potter	Director

Liens On Capital Stock of Subsidiaries of the Company

As guarantee of payment and reimbursement of all sums due in respect to Stepan Europe S.A. term loan, the stock of Stepan UK and Stepan Deutschland were pledged as security to Credit Lyonnais and Lyonnaise de Banque, both of Lyon, France.

In addition, Stepan Europe S.A. also assigned a EUR 3 million mortgage on the land and fixed assets located at Voreppe (Isere, France).

Agreements Containing Restrictions On Ability of Subsidiaries
to Pay Dividends

Stepan Europe S.A. term loan prohibits dividend payments.

Agreements With Requirements Affecting Parent Company

Stepan Europe S.A. bank term loan requires inter-company loans from Stepan Company, as of any year-end, to be equal in amount to the balance then outstanding on the bank term loan.

Schedule 5.4 (cont'd)
(to Amended and Restated Note Agreement)

SCHEDULE 5.5
FINANCIAL STATEMENTS

December 31, 2000 Form 10-K and Financial Statements (audited):

Consolidated Balance Sheets as of December 31, 2000 and 1999

Consolidated Statements of Income - December 31, 2000, 1999 and 1998

Consolidated Statements of Cash Flows - December 31, 2000, 1999 and 1998

December 31, 2001 Form 10-K and Financial Statements (audited):

Consolidated Balance Sheets as of December 31, 2001 and 2000

Consolidated Statements of Income - December 31, 2001, 2000 and 1999

Consolidated Statements of Cash Flows - December 31, 2001, 2000 and 1999

Interim (unaudited) quarterly Financial Statements - 2002

March 31, 2002 Form 10-Q

June 30, 2002 Form 10-Q

Schedule 5.5
(to Amended and Restated Note Agreement)

SCHEDULE 5.8
CERTAIN LITIGATION

None.

Schedule 5.8
(to Amended and Restated Note Agreement)

SCHEDULE 5.10
PRECAUTIONARY UCC FILINGS

SECURED PARTY	DEBTOR	FILING DATE/FILE #	FILING OFFICE	DOCUMENT TYPE -- PROPERTY COVERED
Forsythe/McArthur, Associates Inc., Lessor	Stepan Company	2/25/93, 3089608	Illinois SOS	UCC-1: Leased computer, data processing, telecommunications and other equipment including attachments, accessories, replacements, products and proceeds relating thereto
Forsythe/McArthur Associates, Inc.	Stepan Company	8/28/97, 3733310	Illinois SOS	UCC-3: Continues 3089608
Pitney Bowes Credit Corporation	Stepan Company	10/27/97, 3755618	Illinois SOS	UCC-1: All equipment of whatever nature manufactured, sold or distributed by Pitney Bowes Credit Inc., Monarch Marketing Systems Inc., Pitney Bowes Credit Corp., Dictaphone Corp. and subject to lease between debtor and secured party, including proceeds, additions and replacements relating thereto
Minolta Business Systems, Inc.	Stepan Company	11/21/97, 3766297	Illinois SOS	UCC-1: Leased Minolta Copier and Controller
Minolta Business Systems, Inc.	Stepan Company	2/1/99, 3981526	Illinois SOS	UCC-1: Leased Minolta Controller
IBM Credit Corporation, Lessor	Stepan Company	3/22/00, 4184547	Illinois SOS	UCC-1: Leased computer information processing and other peripheral equipment and goods wherever located, including additions, accessions, upgrades and replacements
Amcore Consumer Finance, Inc., Assignee	Stepan Company	12/12/97, 1806897	New Jersey SOS	UCC-1: 4 leased Stainless Steel 350 Gal Tanks, includes proceeds

Schedule 5.10
(to Amended and Restated Note Agreement)

SCHEDULE 5.11
PATENTS, ETC.

None.

Schedule 5.11
(to Amended and Restated Note Agreement)

SCHEDULE 5.14
USE OF PROCEEDS

Loan proceeds will be used to repay existing debt as well as for capital expenditures, working capital, acquisitions, dividends and other corporate purposes.

Schedule 5.14
(to Amended and Restated Note Agreement)

SCHEDULE 5.15
EXISTING INDEBTEDNESS

Indebtedness of the Company and Its Subsidiaries Outstanding On
September 30, 2002, Excluding Intercompany Loans.

Obligor	Creditor	Description of Indebtedness (Including Interest Rate)	Collateral (if any)	Maturity	Outstanding Principal Amount (\$000'S)
Stepan Company	The Northwestern Mutual Life Insurance Company	9.70% Notes	None	Original Stated : 2006 Current: 2003	\$ 667
Stepan Company	The Northwestern Mutual Life Insurance Company	7.22% Notes	None	Original Stated : 2008 Current: 2007	\$ 5,000
Stepan Company	The Northwestern Mutual Life Insurance Company	7.69% Notes	None	2005	\$ 2,250
Stepan Company	The Northwestern Mutual Life Insurance Company	7.77% Notes	None	2010	\$ 8,182
Stepan Company	The Northwestern Mutual Life Insurance Company	6.59% Notes	None	2013	\$ 20,000
Stepan Company	The Northwestern Mutual Life Insurance Company	6.86% Notes	None	2015	\$ 20,000
Stepan Company	The Northwestern Mutual Life Insurance Company for its Group Annuity Separate Account	6.86% Notes	None	2015	\$ 1,000

Schedule 5.15
(to Amended and Restated Note Purchase Agreement)

Stepan Company	Aid Association for Lutherans	7.22% Notes	None	Original Stated : 2008 Current: 2007	\$ 5,000
Stepan Company	Aid Association for Lutherans	7.69% Notes	None	2005	\$ 2,250
Stepan Company	Aid Association for Lutherans	7.77% Notes	None	2010	\$ 8,182
Stepan Company	Thrivent Financial for Lutherans	6.86% Notes	None	2015	\$ 3,000
Stepan Company	The Mutual Life Insurance Company of New York	7.22% Notes	None	Original Stated : 2008 Current: 2007	\$ 5,000
Stepan Company	The Mutual Life Insurance Company of New York	7.69% Notes	None	2005	\$ 1,500
Stepan Company	The Mutual Life Insurance Company of New York	7.77% Notes	None	2010	\$ 5,454
Stepan Company	MONY Life Insurance Company	6.86% Notes	None	2015	\$ 3,000
Stepan Company	Connecticut General Life Insurance Company	6.59% Notes	None	2013	\$ 10,000
Stepan Company	Connecticut General Life Insurance Company	6.86% Notes	None	2015	\$ 3,000
Stepan Europe S.A.	Credit Lyonnais (50%) Lyonnaisse de Banque (50%)	Term Loan	Shares of Stepan UK and Stepan Deutschland, EUR 3MM mortgage on the land & fixed assets located at Voreppe (Isere, France).	2008	EUR 12,904

Schedule 5.15 (cont'd)
(to Amended and Restated Note Agreement)

Stepan Europe S.A.	Water Agency	Government Subsidy	None	2007	EUR	103
Stepan Deutschland GmbH	SEB AG	5.50% term loan	None	2006	EUR	1,125

Agreements providing for future Liens on properties of the Company and its Subsidiaries:

None.

Schedule 5.15 (cont'd)
(to Amended and Restated Note Agreement)

SCHEDULE 5.18
ENVIRONMENTAL MATTERS

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 (CERCLA) 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 USEPA to the company for property currently owned by the company, the company completed a Remedial Investigation Feasibility Study (RI/FS) in 1994. The company has also submitted additional information regarding the remediation, most recently in February 2002. Discussions between USEPA and the company are continuing. The company is awaiting the issuance of a Record of Decision (ROD) from USEPA relating to the currently owned and formerly owned company property and the proposed remediation. The final ROD will be issued sometime after the public comment period.

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 (DOE) took title to radiological contaminated materials and was to remediate, at its expense, all radiological waste on the company's property in Maywood, New Jersey. The Maywood property (and portions of the surrounding area) were remediated by the DOE 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 a USACE Report to Congress dated January 1998 in which the USACE 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. Subsequent to the issuance of that report, the USACE advised the company that it had requested legal advice from the Department of Justice as to the impact of the Agreement.

By letter dated July 28, 2000, the Department of Justice advised the company that the USACE and USEPA had referred to the Justice Department claims against the company for response costs incurred or to be incurred by the USACE, USEPA and the DOE in connection with the Maywood site and the Justice Department stated that the United States is entitled to recovery of its response costs from the company under CERCLA. The letter referred to both radiological and non-radiological hazardous waste at the Maywood site and stated that the United States has incurred unreimbursed response costs to date of \$138 million. Costs associated with radiological waste at the Maywood site, which the company believes represent all but a small portion of the amount referred to in the Justice Department letter, could be expected to aggregate substantially in excess of that amount. In the letter, the Justice Department invited the company to discuss settlement of the matter in order to avoid the need for litigation. The company believes that its liability, if any, for such costs has been resolved by the aforesaid Agreement. Despite the fact that the company continues to believe that it has no liability to the United States for such costs, discussions with the Justice Department are currently ongoing to attempt to resolve this matter.

SCHEDULE 5.18
(to Amended and Restated Note Agreement)

The company believes it has adequate reserves for claims associated with the Maywood site. However, depending on the results of the ongoing discussions regarding the Maywood site, the final cost of the remediation could differ from the current estimates.

As reported previously, the company has been named as a potentially responsible party (PRP) in the case USEPA v. Jerome Lightman (92 CV 4710 D. N. J.) 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 was completed in March 2000. The company is awaiting a decision from the court. If the company is found liable at either site, a second trial as to the company's allocated share of clean-up costs at these sites will likely be held in 2003. The company believes it has adequate defenses to the issue of liability. In the event of an unfavorable outcome related to the issue of 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.

Regarding the D'Imperio Superfund Site, USEPA has indicated it will seek penalty claims against the company based on the company's alleged noncompliance with the modified Unilateral Administrative Order. The company is currently negotiating with USEPA to settle its proposed penalty against the company but does not believe that a settlement, if any, will have a material impact on the financial condition of the company. In addition, the company also received notice from the New Jersey Department of Environmental Protection (NJDEP) dated March 21, 2001, that NJDEP has indicated it will pursue cost recovery against the alleged responsible parties, including the company. The NJDEP's claims include costs related to remediation of the D'Imperio Superfund Site in the amount of \$434,405.53 and alleged natural resource damages in the amount of \$529,584.00 (as of November 3, 2000). The NJDEP settled such claims against the alleged responsible parties, resulting in the company paying its portion of \$83,061.00 in July 2002. This payment is subject to reallocation after the allocation phase of the above-identified trial, if any. The payment did not have a material impact on the financial condition of the company.

As reported previously, the company received a Section 104(e) Request for Information from USEPA dated March 21, 2000, regarding the Lightman Drum Company Site located in Winslow Township, New Jersey. The company responded to this request on May 18, 2000. In addition, the company received a Notice of Potential Liability and Request to Perform RI/FS dated June 30, 2000, from USEPA. The company has decided that it will participate in the performance of the RI/FS. However, based on the current information known regarding this site, the company is unable to predict what its liability, if any, will be for this site.

SCHEDULE 5.18 (cont'd)
(to Amended and Restated Note Agreement)

SCHEDULE 10.5
EXISTING INVESTMENTS AS OF DECEMBER 31, 2001

Investment In	Amount of Investment*
	(\$000's)
-----	-----
Stepan Europe S.A.	\$ 26,762
Stepan Philippines S.A.	\$ 8,814
Stepan Mexico S.A. de C.V.	\$ 5,754
Stepan Colombiana de Quimicos	\$ 4,311
Stepan Canada, Inc.	\$ 880
Stepan Quimica Ltda.	\$ 221

* Investments are shown at cost at the time of investment, without allowance for any subsequent write-offs, appreciation or depreciation, less any amounts repaid or recovered on account of capital or principal.

Schedule 10.5
(to Amended and Restated Note Agreement)

STEPAN COMPANY

7.22% Amended and Restated Senior Note, Series A, due April 1, 2008

No. _____
\$ _____

[Date]
PPN 858586 G*5

For Value Received, the undersigned, STEPAN COMPANY (herein called the "Company"), a corporation organized and existing under the laws of the State of Delaware, hereby promises to pay to _____, or registered assigns, the principal sum of _____ DOLLARS on April 1, 2008, with interest (computed on the basis of a 360-day year of twelve 30-day months) (a) on the unpaid balance thereof at the rate of 7.22% per annum from the date hereof, payable semiannually, on the first day of each April and October in each year, commencing with the April 1 or October 1 next succeeding the date hereof, until the principal hereof shall have become due and payable, and (b) to the extent permitted by law on any overdue payment (including any overdue prepayment) of principal, any overdue payment of interest and any overdue payment of any Make-Whole Amount (as defined in the Amended and Restated Note Agreement referred to below), payable semiannually as aforesaid (or, at the option of the registered holder hereof, on demand), at a rate per annum from time to time equal to the greater of (i) 8.22% or (ii) the rate of interest publicly announced by Bank One, N.A. from time to time in Chicago, Illinois as its "base" or "prime" rate.

Payments of principal of, interest on and any Make-Whole Amount with respect to this Note are to be made in lawful money of the United States of America at the Company's office in Northfield, Illinois or at such other place as the Company shall have designated by written notice to the holder of this Note as provided in the Amended and Restated Note Agreement referred to below.

This Note is one of the Series A Senior Notes (herein called the "Notes") issued pursuant to the Amended and Restated Note Agreement, dated as of December 1, 2002 (as from time to time amended, the "Amended and Restated Note Agreement"), among the Company and the respective Noteholders named therein and is entitled to the benefits thereof. Each holder of this Note will be deemed, by its acceptance hereof, (i) to have agreed to the confidentiality provisions set forth in Section 20 of the Amended and Restated Note Agreement and (ii) to have made the representation set forth in Section 6.2 of the Amended and Restated Note Agreement, provided that such holder may (in reliance upon information provided by the Company, which shall not be unreasonably withheld) make a representation to the effect that the purchase by such holder of any Note will not constitute a non-exempt prohibited transaction under Section 406(a) of ERISA.

This Note is a registered Note and, as provided in the Amended and Restated Note Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for a like principal amount will be

Exhibit 1(a)
(to Amended and Restated Note Agreement)

issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company will not be affected by any notice to the contrary.

The Company will make required prepayments of principal on the dates and in the amounts specified in the Amended and Restated Note Agreement. This Note is also subject to optional prepayment, in whole or from time to time in part, at the times and on the terms specified in the Amended and Restated Note Agreement, but not otherwise.

If an Event of Default, as defined in the Amended and Restated Note Agreement, occurs and is continuing, the principal of this Note may be declared or otherwise become due and payable in the manner, at the price (including any applicable Make-Whole Amount) and with the effect provided in the Amended and Restated Note Agreement.

This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of Illinois excluding choice-of-law principles of the law of such State that would require the application of the laws of a jurisdiction other than such State.

STEPAN COMPANY

By _____
Name:
Title:

STEPAN COMPANY

7.22% Amended and Restated Senior Note, Series B, due August 1, 2008

No. _____
\$ _____

[Date]
PPN 858586 G@ 3

For Value Received, the undersigned, STEPAN COMPANY (herein called the "Company"), a corporation organized and existing under the laws of the State of Delaware, hereby promises to pay to _____, or registered assigns, the principal sum of _____ DOLLARS on August 1, 2008, with interest (computed on the basis of a 360-day year of twelve 30-day months) (a) on the unpaid balance thereof at the rate of 7.22% per annum from the date hereof, payable semiannually, on the first day of each February and August in each year, commencing with the February 1 or August 1 next succeeding the date hereof, until the principal hereof shall have become due and payable, and (b) to the extent permitted by law on any overdue payment (including any overdue prepayment) of principal, any overdue payment of interest and any overdue payment of any Make-Whole Amount (as defined in the Amended and Restated Note Agreement referred to below), payable semiannually as aforesaid (or, at the option of the registered holder hereof, on demand), at a rate per annum from time to time equal to the greater of (i) 8.22% or (ii) the rate of interest publicly announced by Bank One, N.A. from time to time in Chicago, Illinois as its "base" or "prime" rate.

Payments of principal of, interest on and any Make-Whole Amount with respect to this Note are to be made in lawful money of the United States of America at the Company's office in Northfield, Illinois or at such other place as the Company shall have designated by written notice to the holder of this Note as provided in the Amended and Restated Note Agreement referred to below.

This Note is one of the Series B Senior Notes (herein called the "Notes") issued pursuant to the Amended and Restated Note Agreement, dated as of December 1, 2002 (as from time to time amended, the "Amended and Restated Note Agreement"), among the Company and the respective Noteholders named therein and is entitled to the benefits thereof. Each holder of this Note will be deemed, by its acceptance hereof, (i) to have agreed to the confidentiality provisions set forth in Section 20 of the Amended and Restated Note Agreement and (ii) to have made the representation set forth in Section 6.2 of the Amended and Restated Note Agreement, provided that such holder may (in reliance upon information provided by the Company, which shall not be unreasonably withheld) make a representation to the effect that the purchase by such holder of any Note will not constitute a non-exempt prohibited transaction under Section 406(a) of ERISA.

This Note is a registered Note and, as provided in the Amended and Restated Note Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for a like principal amount will be

Exhibit 1(b)
(to Amended and Restated Note Agreement)

issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company will not be affected by any notice to the contrary.

The Company will make required prepayments of principal on the dates and in the amounts specified in the Amended and Restated Note Agreement. This Note is also subject to optional prepayment, in whole or from time to time in part, at the times and on the terms specified in the Amended and Restated Note Agreement, but not otherwise.

If an Event of Default, as defined in the Amended and Restated Note Agreement, occurs and is continuing, the principal of this Note may be declared or otherwise become due and payable in the manner, at the price (including any applicable Make-Whole Amount) and with the effect provided in the Amended and Restated Note Agreement.

This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of Illinois excluding choice-of-law principles of the law of such State that would require the application of the laws of a jurisdiction other than such State.

Stepan Company

By -----
Name:
Title:

DESCRIPTION OF OPINION OF COUNSEL
TO THE COMPANY

The legal opinion of F. Samuel Eberts III, General Counsel of the Company, which is called for by Section 4.4(a) of the Amended and Restated Note Agreement, shall be dated the Effective Date and addressed to the Noteholders, shall be satisfactory in scope and form to the Noteholders and shall be to the effect that:

1. The Company is a corporation, duly incorporated, validly existing and in good standing under the laws of the State of Delaware, has the corporate power and the corporate authority to execute and perform the Amended and Restated Note Agreement and to issue the Notes and has the full corporate power and the corporate authority to conduct the activities in which it is now engaged and is duly licensed or qualified and is in good standing as a foreign corporation in each jurisdiction in which the character of the properties owned or leased by it or the nature of the business transacted by it makes such licensing or qualification necessary.

2. The Amended and Restated Note Agreement has been duly authorized by all necessary corporate action on the part of the Company, has been duly executed and delivered by the Company and constitutes the legal, valid and binding contract of the Company enforceable in accordance with its terms, subject to bankruptcy, insolvency, fraudulent conveyance and similar laws affecting creditors' rights generally, and general principles of equity (regardless of whether the application of such principles is considered in a proceeding in equity or at law).

3. The Notes have been duly authorized by all necessary corporate action on the part of the Company, have been duly executed and delivered by the Company and constitute the legal, valid and binding obligations of the Company enforceable in accordance with their terms, subject to bankruptcy, insolvency, fraudulent conveyance and similar laws affecting creditors' rights generally, and general principles of equity (regardless of whether the application of such principles is considered in a proceeding in equity or at law).

4. No order, permission, consent or approval of any federal or state commission, board or regulatory body is required as a condition to the lawful execution and delivery of the Amended and Restated Note Agreement or the Notes.

5. The issuance of the Notes and the execution, delivery and performance by the Company of the Amended and Restated Note Agreement do not conflict with or result in any breach of any of the provisions of or constitute a default under or result in the creation or imposition of any Lien upon any of the property of the Company pursuant to the provisions of the Certificate of Incorporation or By-laws of the Company, any law or any agreement or other instrument known to such counsel to which the Company is a party or by which the Company may be bound.

Exhibit-4.4(a)

6. The issuance and delivery of the Notes under the circumstances contemplated by the Amended and Restated Note Agreement do not, under existing law, require the registration of the Notes under the Securities Act of 1933, as amended, or the qualification of an indenture under the Trust Indenture Act of 1939, as amended.

7. Except as set forth in the 10-K or in Schedule 5.8, there are no actions, suits or proceedings pending or, to the best knowledge and belief of such counsel, threatened against or affecting the Company, at law or in equity or before or by any federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, an adverse determination with respect to which may result in any material adverse change in the business, properties, assets or condition, financial or otherwise, of the Company.

The opinion of F. Samuel Eberts III shall cover such other matters relating to the amendment and restatement of the Existing Agreements and the exchange of the Existing Notes as the Noteholders may reasonably request. With respect to matters of fact on which such opinion is based, such counsel shall be entitled to rely on appropriate certificates of public officials and officers of the Company.

E-4.4(a)-2

DESCRIPTION OF OPINION OF SPECIAL COUNSEL
TO THE NOTEHOLDERS

The legal opinion of Chapman and Cutler, special counsel to the Noteholders, called for by Section 4.4(b) of the Amended and Restated Note Agreement, shall be dated the Effective Date and addressed to the Noteholders, shall be satisfactory in form and substance to the Noteholders and shall be to the effect that:

1. The Company is a corporation, validly existing and in good standing under the laws of the State of Delaware and has the corporate power and the corporate authority to execute and deliver the Amended and Restated Note Agreement and to issue the Notes.

2. The Amended and Restated Note Agreement has been duly authorized by all necessary corporate action on the part of the Company, has been duly executed and delivered by the Company and constitutes the legal, valid and binding contract of the Company enforceable in accordance with its terms, subject to bankruptcy, insolvency, fraudulent conveyance and similar laws affecting creditors' rights generally, and general principles of equity (regardless of whether the application of such principles is considered in a proceeding in equity or at law).

3. The Notes have been duly authorized by all necessary corporate action on the part of the Company, and the Notes being delivered on the date hereof have been duly executed and delivered by the Company and constitute the legal, valid and binding obligations of the Company enforceable in accordance with their terms, subject to bankruptcy, insolvency, fraudulent conveyance and similar laws affecting creditors' rights generally, and general principles of equity (regardless of whether the application of such principles is considered in a proceeding in equity or at law).

4. The issuance and delivery of the Notes under the circumstances contemplated by the Amended and Restated Note Agreement do not, under existing law, require the registration of the Notes under the Securities Act of 1933, as amended, or the qualification of an indenture under the Trust Indenture Act of 1939, as amended.

The opinion of Chapman and Cutler shall also state that the opinions of F. Samuel Eberts III is satisfactory in scope and form to Chapman and Cutler and that, in their opinion, the Noteholders are justified in relying thereon.

In rendering the opinion set forth in paragraph 1 above, Chapman and Cutler may rely solely upon an examination of the Certificate of Incorporation certified by, and a certificate of good standing of the Company from, the Secretary of State of the State of Delaware, the By-laws of the Company and the General Corporation Law of the State of Delaware. The opinion of Chapman and Cutler is limited to the laws of the State of Illinois, the General Corporation Law of the State of Delaware and the Federal laws of the United States.

With respect to matters of fact upon which such opinion is based, Chapman and Cutler may rely on appropriate certificates of public officials and officers of the Company and upon

Exhibit 4.4(b)

representations of the Company and the Noteholders delivered in connection with the issuance of the Notes.

E-4.4(b)-2

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Stepan Company

Amended and Restated Note Agreement

Dated as of December 1, 2002

Re: 9.70% Amended and Restated Senior Notes, Series B, due April 1, 2006

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(Not a part of the Agreement)

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STEPAN COMPANY
EDENS AND WINNETKA AVENUE
NORTHFIELD, ILLINOIS 60093

9.70% Amended and Restated Senior Notes, Series B, due April 1, 2006

Dated as of
December 1, 2002

To the Persons listed in
the attached Schedule A:

Ladies and Gentlemen:

Stepan Company, a Delaware corporation (the "Company"), agrees with each Noteholder listed in the attached Schedule A as follows:

Section 1. Background.

Reference is made to the separate Loan Agreements, each dated as of March 1, 1991, between the Company and, respectively, each purchaser listed in Schedule I thereto (the "Existing Agreements"), under and pursuant to which the Company issued (a) its 9.52% Promissory Notes, Series A, due April 1, 2001 in the aggregate principal amount of \$15,000,000 (the "Series A Notes") and (b) its 9.70% Promissory Notes, Series B, due April 1, 2006 in the aggregate principal amount of \$10,000,000 (the "Series B Notes"). Series B Notes in the aggregate principal amount of \$667,000 are presently outstanding (the "Existing Notes"). No Series A Notes are presently outstanding. The Company now desires to amend and restate the Existing Agreements and the Existing Notes in their entirety. In order to effectuate and reflect the foregoing in the most expeditious manner, to facilitate dealings with respect to the Existing Agreements and the Existing Notes and to promote clarity and convenience, the parties hereto have agreed to amend and restate each of the Existing Agreements and the Existing Notes.

Section 2. Amendment and Restatement of Existing Agreements and Existing Notes.

Section 2.1. Amendment and Restatement of Existing Agreements. Effective the Effective Date (as hereinafter defined), the Company, by its execution of this Agreement, hereby agrees and consents to the amendment and restatement in their entirety of all of the Existing Agreements by and into this Agreement.

Section 2.2. Amendment and Restatement of Existing Notes. The Company, by its execution of this Agreement, hereby agrees and consents to the amendment and restatement in

their entirety of the Existing Notes to be in the form of Exhibit 1 hereto. The Existing Notes, as so amended and restated, shall be hereinafter referred to, individually, as a "Note" and, collectively, as the "Notes," and shall include each Note delivered pursuant to any provision of this Agreement and each Note delivered in substitution or exchange for any such Note pursuant to any such provision. The Company has duly authorized the execution and delivery to each Noteholder of the Notes, which Notes shall (i) be substituted in the place of the Existing Notes, (ii) be dated and bear interest from the date of the last full payment of interest on the Existing Notes, (iii) have the terms herein and therein provided, and (iv) be substantially in the form set out in Exhibit 1, with such changes therefrom, if any, as may be approved by the Noteholders and the Company.

Section 2.3. Agreement and Consent of the Noteholders. The Noteholders are, collectively, the holders of one hundred percent (100%) in aggregate principal amount of the Existing Notes. Subject to the satisfaction of the conditions precedent set forth in Section 4, the Noteholders, by their execution of this Agreement, hereby agree and consent to: (a) the amendment and restatement in their entirety of all of the Existing Agreements by and into this Agreement and (b) the amendment and restatement in their entirety of all of the Existing Notes by the exchange for an equal number of Notes in the form of Exhibit 1 hereto and in an equal outstanding principal amount therefor.

Section 2.4. Defined Terms, Etc. Certain capitalized terms used in this Agreement are defined in Schedule B; references to a "Schedule" or an "Exhibit" are, unless otherwise specified, to a Schedule or an Exhibit attached to this Agreement; and references to a "Section" are, unless otherwise specified, to a Section of this Agreement.

Section 2.5. Several Obligations. The obligations of each Noteholder hereunder are several and not joint obligations, and no Noteholder shall have any obligation or liability to any Person for the performance or nonperformance by any other Noteholder hereunder.

Section 2.6. Effect of Amendment and Restatement. Each of the Noteholders and the Company agree that (a) the amendment and restatement of the Existing Notes and the exchange of the Existing Notes for the Notes hereunder shall not constitute a novation or a prepayment of the Existing Notes and (b) no Make-Whole Amount or other premium is payable as a result of the amendment and restatement of the Existing Agreements or the Existing Notes as contemplated hereby.

Section 3. Effective Date.

Section 3.1. Effective Date. On December 12, 2002, or such other Business Day thereafter as may be mutually agreed upon by the Company and the Noteholders (the "Effective Date"), the Company shall execute and deliver to the Noteholders at the offices of Chapman and Cutler, 111 West Monroe Street, Chicago, Illinois 60603, at 10:00 A.M. Chicago time, or at such other place agreed to by the parties, one or more Notes (as set forth below each Noteholder's name on Schedule A), registered in the name specified on Schedule A, and in the denomination or denominations specified on Schedule A, in replacement of the Existing Notes held by each Noteholder (or such Noteholder's nominee), in the respective principal amounts, as more

particularly set forth below its name on Schedule A. Contemporaneously with the receipt by each Noteholder of such Notes, the Existing Notes held by such Noteholder shall be deemed to be cancelled and amended and restated by the Notes (regardless of whether such Noteholder shall have delivered to the Company for cancellation the Existing Notes held by it). Each Noteholder agrees to use commercially reasonable efforts to deliver the Existing Notes held by it to the Company in connection with the foregoing replacement and cancellation. All amounts owing under, and evidenced by, the Existing Notes as of the Effective Date shall continue to be outstanding under, and shall from and after the Effective Date be evidenced by, the Notes, and shall be governed by the terms of this Agreement. It is the intention of the parties hereto that the amendment and restatement of the Existing Notes by the Company and the execution, delivery and full effectiveness of this Agreement be simultaneous. Existing Notes delivered to the Company pursuant to the terms of this Agreement shall be marked "Cancelled/Amended and Restated by New Notes" by the Company.

If on the Effective Date the Company shall fail to tender the Notes to any Noteholder as provided in this Section 3.1, or any of the conditions specified in Section 4 shall not have been fulfilled to any Noteholder's reasonable satisfaction, such Noteholder shall, at such Noteholder's election, be relieved of all further obligations under this Agreement, without thereby waiving any rights such Noteholder may have under the Existing Agreements, the Existing Notes or otherwise by reason of such failure or such nonfulfillment.

Section 3.2. Survival of Payment Obligations. All payment obligations of the Company under the Existing Agreements (including, without limitation, reimbursement obligations in respect of costs, expenses and fees of or incurred by the holders of the Existing Notes), other than the obligation to pay the principal of and interest and Make-Whole Amount on the Existing Notes (which obligations, after the Effective Date, shall be evidenced by the Notes) shall survive the amendment and restatement of the Existing Agreements and the Existing Notes (and the cancellation thereof).

Section 4. Conditions Precedent.

The effectiveness of this Agreement is subject to the fulfillment to such Noteholder's satisfaction, prior to or on the Effective Date, of the following conditions:

Section 4.1. Representations and Warranties. The representations and warranties of the Company in this Agreement shall be correct when made and on the Effective Date.

Section 4.2. Performance; No Default. The Company shall have performed and complied with all agreements and conditions contained in this Agreement required to be performed or complied with by it prior to or on the Effective Date, and after giving effect to the transactions contemplated hereby, no Default or Event of Default shall have occurred and be continuing.

Section 4.3. Compliance Certificates.

(a) Officer's Certificate. The Company shall have delivered to such Noteholder an Officer's Certificate, dated the Effective Date, certifying that the conditions specified in Sections 4.1, 4.2 and 4.9 have been fulfilled.

(b) Secretary's Certificate. The Company shall have delivered to such Noteholder a certificate certifying as to the resolutions attached thereto and other corporate proceedings relating to the authorization, execution and delivery of the Notes and this Agreement.

Section 4.4. Opinions of Counsel. Such Noteholder shall have received opinions in form and substance satisfactory to such Noteholder, dated the Effective Date (a) from F. Samuel Eberts III, General Counsel of the Company, covering the matters set forth in Exhibit 4.4(a) and covering such other matters incident to the transactions contemplated hereby as such Noteholder or such Noteholder's counsel may reasonably request (and the Company hereby instructs its counsel to deliver such opinion to such Noteholder) and (b) from Chapman and Cutler, the Noteholders' special counsel in connection with such transactions, substantially in the form set forth in Exhibit 4.4(b) and covering such other matters incident to such transactions as such Noteholder may reasonably request.

Section 4.5. Exchange Permitted by Applicable Law, Etc. On the Effective Date the exchange of the Existing Notes for the Notes shall (i) be permitted by the laws and regulations of each jurisdiction to which each Noteholder is subject, without recourse to provisions (such as Section 1405(a)(8) of the New York Insurance Law) permitting limited investments by insurance companies without restriction as to the character of the particular investment, (ii) not violate any applicable law or regulation (including, without limitation, Regulation T, U or X of the Board of Governors of the Federal Reserve System) and (iii) not subject any Noteholder to any tax, penalty or liability under or pursuant to any applicable law or regulation, which law or regulation was not in effect on the date hereof. If requested by any Noteholder, such Noteholder shall have received an Officer's Certificate certifying as to such matters of fact as such Noteholder may reasonably specify to enable such Noteholder to determine whether such exchange is so permitted.

Section 4.6. Delivery and Exchange of Notes. On the Effective Date, the Company shall execute and deliver to the Noteholders, in exchange for the Existing Notes held by such Noteholders, Notes as specified on Schedule A.

Section 4.7. Payment of Special Counsel Fees. Without limiting the provisions of Section 15.1, the Company shall have paid on or before the Effective Date the fees, charges and disbursements of the Noteholders' special counsel referred to in Section 4.4 to the extent reflected in a statement of such counsel rendered to the Company at least one Business Day prior to the Effective Date.

Section 4.8. Private Placement Number. A Private Placement Number issued by Standard & Poor's CUSIP Service Bureau (in cooperation with the Securities Valuation Office of the National Association of Insurance Commissioners) shall have been obtained for the Notes.

Section 4.9. Changes in Corporate Structure. Except as specified in Schedule 4.9, at any time following the date of the most recent financial statements referred to in Schedule 5.5, the Company shall not have changed its jurisdiction of incorporation or been a party to any merger or consolidation and shall not have succeeded to all or any substantial part of the liabilities of any other entity.

Section 4.10. Proceedings and Documents. All corporate and other proceedings in connection with the transactions contemplated by this Agreement and all documents and instruments incident to such transactions shall be satisfactory to such Noteholder and such Noteholder's special counsel, and such Noteholder and such Noteholder's special counsel shall have received all such counterpart originals or certified or other copies of such documents as such Noteholder or such Noteholder's special counsel may reasonably request.

Section 5. Representations and Warranties of the Company.

The Company represents and warrants to each Noteholder, as of the Effective Date, that:

Section 5.1. Organization; Power and Authority. The Company is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation, and is duly qualified as a foreign corporation and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. The Company has the corporate power and authority to own or hold under lease the properties it purports to own or hold under lease, to transact the business it transacts and proposes to transact, to execute and deliver this Agreement and the Notes and to perform the provisions hereof and thereof.

Section 5.2. Authorization, Etc. This Agreement and the Notes have been duly authorized by all necessary corporate action on the part of the Company, and this Agreement constitutes, and upon execution and delivery thereof each Note will constitute, a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except as such enforceability may be limited by (a) applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and (b) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Section 5.3. Disclosure. The Company has delivered to each Noteholder copies of (a) the annual report as filed with the Securities and Exchange Commission on Form 10-K for the fiscal year ended December 31, 2001 (the "10-K") which generally sets forth the business conducted by the Company and its Subsidiaries and the principal properties of the Company and its Subsidiaries, and (b) the quarterly reports as filed with the Securities and Exchange Commission on Form 10-Q for the quarterly fiscal periods ended March 31, 2002 and June 30, 2002 (the "10-Qs"). This Agreement, the 10-K, the 10-Qs and the other financial statements listed in Schedule 5.5, taken as a whole, do not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading in light of the circumstances under which they were made. Since December 31, 2001, there has been no

change in the financial condition, operations, business, properties or prospects of the Company or any Subsidiary except changes that individually or in the aggregate could not reasonably be expected to have a Material Adverse Effect. There is no fact known to the Company that could reasonably be expected to have a Material Adverse Effect that has not been set forth herein or in the other documents, certificates and other writings delivered to the Noteholders by or on behalf of the Company specifically for use in connection with the transactions contemplated hereby.

Section 5.4. Organization and Ownership of Shares of Subsidiaries; Affiliates. (a) Schedule 5.4 contains (except as noted therein) complete and correct lists (i) of the Company's Restricted Subsidiaries and Unrestricted Subsidiaries, showing, as to each Subsidiary, the correct name thereof, the jurisdiction of its organization, and the percentage of shares of each class of its capital stock or similar equity interests outstanding owned by the Company and each other Subsidiary, (ii) of the Company's Affiliates, other than Subsidiaries, and (iii) of the Company's directors and Executive Officers (as defined in Rule 405 of the Securities Act).

(b) All of the outstanding shares of capital stock or similar equity interests of each Subsidiary shown in Schedule 5.4 as being owned by the Company and its Subsidiaries have been validly issued, are fully paid and nonassessable and are owned by the Company or another Subsidiary free and clear of any Lien (except as otherwise disclosed in Schedule 5.4).

(c) Each Subsidiary identified in Schedule 5.4 is a corporation or other legal entity duly organized or formed, validly existing and in good standing under the laws of its jurisdiction of organization or formation, and is duly qualified as a foreign corporation or other legal entity and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Each such Subsidiary has the corporate or other power and authority to own or hold under lease the properties it purports to own or hold under lease and to transact the business it transacts and proposes to transact.

(d) No Subsidiary is a party to, or otherwise subject to, any legal restriction or any agreement (other than this Agreement, the agreements listed on Schedule 5.4 and customary limitations imposed by corporate law statutes) restricting the ability of such Subsidiary to pay dividends out of profits or make any other similar distributions of profits to the Company or any of its Subsidiaries that owns outstanding shares of capital stock or similar equity interests of such Subsidiary.

Section 5.5. Financial Statements. The Company has delivered to each Noteholder copies of the financial statements of the Company and its Subsidiaries listed on Schedule 5.5. All of said financial statements (including in each case the related schedules and notes) fairly present in all material respects the consolidated financial position of the Company and its Subsidiaries as of the respective dates specified in such financial statements and the consolidated results of their operations and cash flows for the respective periods so specified and have been prepared in accordance with GAAP consistently applied throughout the periods involved except (a) as set forth in the notes thereto (subject, in the case of any interim financial statements, to

normal year-end adjustments) and (b) as specifically disclosed in writing by the Company (i) to the Noteholders in their capacity as holders of existing notes of the Company in that certain Waiver Agreement dated as of August 12, 2002 (including the Memorandum from the Company entitled "Accounting For Deferred Management Compensation and Deferred Directors' Fees" attached to said Waiver Agreement as Exhibit A) and (ii) in its public filings with the Securities and Exchange Commission.

Section 5.6. Compliance with Laws, Other Instruments, Etc. The execution, delivery and performance by the Company of this Agreement and the Notes will not (i) contravene, result in any breach of, or constitute a default under, or result in the creation of any Lien in respect of any property of the Company or any Subsidiary under, any indenture, mortgage, deed of trust, loan, purchase or credit agreement, lease, corporate charter or by-laws, or any other agreement or instrument to which the Company or any Subsidiary is bound or by which the Company or any Subsidiary or any of their respective properties may be bound or affected, (ii) conflict with or result in a breach of any of the terms, conditions or provisions of any order, judgment, decree, or ruling of any court, arbitrator or Governmental Authority applicable to the Company or any Subsidiary or (iii) violate any provision of any statute or other rule or regulation of any Governmental Authority applicable to the Company or any Subsidiary.

Section 5.7. Governmental Authorizations, Etc. No consent, approval or authorization of, or registration, filing or declaration with, any Governmental Authority is required in connection with the execution, delivery or performance by the Company of this Agreement or the Notes.

Section 5.8. Litigation; Observance of Agreements, Statutes and Orders. (a) Except as disclosed in Schedule 5.8, and excluding environmental matters which are covered in Section 5.18, there are no actions, suits or proceedings pending or, to the knowledge of the Company, threatened against or affecting the Company or any Subsidiary or any property of the Company or any Subsidiary in any court or before any arbitrator of any kind or before or by any Governmental Authority that, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

(b) Neither the Company nor any Subsidiary is in default under any term of any agreement or instrument to which it is a party or by which it is bound, or any order, judgment, decree or ruling of any court, arbitrator or Governmental Authority or is in violation of any applicable law, ordinance, rule or regulation (including without limitation Environmental Laws and ERISA) of any Governmental Authority, which default or violation, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

Section 5.9. Taxes. The Company and its Subsidiaries have filed all tax returns that are required to have been filed in any jurisdiction, and have paid all taxes shown to be due and payable on such returns and all other taxes and assessments levied upon them or their properties, assets, income or franchises, to the extent such taxes and assessments have become due and payable and before they have become delinquent, except for any taxes and assessments (a) the amount of which is not individually or in the aggregate Material or (b) the amount, applicability or validity of which is currently being contested in good faith by appropriate proceedings and

with respect to which the Company or a Subsidiary, as the case may be, has established adequate reserves in accordance with GAAP. The Company knows of no basis for any other tax or assessment that could reasonably be expected to have a Material Adverse Effect. The charges, accruals and reserves on the books of the Company and its Subsidiaries in respect of Federal, state or other taxes for all fiscal periods are adequate. The Federal income tax liabilities of the Company and its Subsidiaries have been audited by the Internal Revenue Service and paid for all fiscal years up to and including the fiscal year ended December 31, 1997.

Section 5.10. Title to Property; Leases. The Company and its Subsidiaries have good and sufficient title to their respective properties that individually or in the aggregate are Material, including all such properties reflected in the most recent audited balance sheet referred to in Section 5.5 or purported to have been acquired by the Company or any Subsidiary after said date (except as sold or otherwise disposed of in the ordinary course of business), in each case free and clear of Liens prohibited by this Agreement. No financing statement under the Uniform Commercial Code which names the Company or any of its Restricted Subsidiaries as debtor has been filed in any jurisdiction, and neither the Company nor any of such Restricted Subsidiaries has signed any financing statement or any security agreement authorizing any secured party thereunder to file any such financing statement, except for precautionary filings described in Schedule 5.10 made in connection with leased equipment and as may otherwise be permitted by Section 10.3.

All leases that individually or in the aggregate are Material are valid and subsisting and are in full force and effect in all material respects. The Company and each Subsidiary enjoys peaceful and undisturbed possession of the premises occupied under all of the leases that are Material under which it is operating, none of which contains any unusual or burdensome provisions that could reasonably be expected to have a Material Adverse Effect. None of the assets or property the value of which is reflected in the Company's consolidated balance sheet as of December 31, 2001, is held by the Company as lessee under any lease or as conditional vendee under any conditional sale contract or other title retention agreement, other than Capitalized Leases included on such consolidated balance sheet and leasehold improvements on leased property in an aggregate amount (net after subtracting the reserve for amortization with respect to such leasehold improvements) not exceeding \$3,000,000.

Section 5.11. Licenses, Permits, Etc. Except as disclosed in Schedule 5.11,

(a) the Company and its Subsidiaries own or possess all licenses, permits, franchises, authorizations, patents, copyrights, service marks, trademarks and trade names, or rights thereto, except where the failure to own or possess could not reasonably be expected to have a Material Adverse Effect;

(b) to the best knowledge of the Company, no product of the Company infringes any license, permit, franchise, authorization, patent, copyright, service mark, trademark, trade name or other right owned by any other Person, except for any such infringement which could not reasonably be expected to have a Material Adverse Effect; and

(c) to the best knowledge of the Company, there is no violation by any Person of any right of the Company or any of its Subsidiaries with respect to any patent, copyright, service mark, trademark, trade name or other right owned or used by the Company or any of its Subsidiaries, except violations which could not reasonably be expected to have a Material Adverse Effect.

Section 5.12. Compliance with ERISA. (a) The Company and each ERISA Affiliate have operated and administered each Plan in compliance with all applicable laws except for such instances of noncompliance as have not resulted in and could not reasonably be expected to result in a Material Adverse Effect. Neither the Company nor any ERISA Affiliate has incurred any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans (as defined in Section 3 of ERISA), and no event, transaction or condition has occurred or exists that could reasonably be expected to result in the incurrence of any such liability by the Company or any ERISA Affiliate, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate, in either case pursuant to Title I or IV of ERISA or to such penalty or excise tax provisions or to Section 401(a)(29) or 412 of the Code, other than such liabilities or Liens as would not be individually or in the aggregate reasonably likely to have a Material Adverse Effect.

(b) The present value of the aggregate benefit liabilities under each of the Plans (other than Multiemployer Plans), determined as of the end of such Plan's most recently ended plan year on the basis of the actuarial assumptions specified for funding purposes in such Plan's most recent actuarial valuation report, did not exceed the aggregate current value of the assets of such Plan allocable to such benefit liabilities by more than \$5,000,000 in the aggregate for all Plans. The term "benefit liabilities" has the meaning specified in Section 4001 of ERISA and the terms "current value" and "present value" have the meanings specified in Section 3 of ERISA.

(c) The Company and its ERISA Affiliates have not incurred withdrawal liabilities (and are not subject to contingent withdrawal liabilities) under Section 4201 or 4204 of ERISA in respect of Multiemployer Plans that individually or in the aggregate are Material.

(d) The expected post-retirement benefit obligation (determined as of the last day of the Company's most recently ended fiscal year in accordance with Financial Accounting Standards Board Statement No. 106, without regard to liabilities attributable to continuation coverage mandated by Section 4980B of the Code) of the Company and its Subsidiaries is not Material.

(e) The execution and delivery of this Agreement and the issuance and delivery of the Notes hereunder will not involve any transaction that is subject to the prohibitions of Section 406 of ERISA or in connection with which a tax could be imposed pursuant to Section 4975(c)(1)(A)-(D) of the Code. The representation by the Company in the first sentence of this Section 5.12(e) is made in reliance upon and subject to the accuracy of each Noteholder's representation in Section 6.2 as to the sources of the funds used to pay the purchase price of the Existing Notes to be exchanged by such Noteholder for the Notes.

Section 5.13. Private Offering by the Company. Neither the Company nor anyone acting on its behalf has offered the Notes or any similar securities for sale to, or solicited any offer to

buy any of the same from, or otherwise approached or negotiated in respect thereof with, any Person other than the Noteholders. Neither the Company nor anyone acting on its behalf has taken, or will take, any action that would subject the issuance of the Notes to the registration requirements of Section 5 of the Securities Act.

Section 5.14. [Reserved].

Section 5.15. Existing Indebtedness; Future Liens. (a) Schedule 5.15 sets forth a complete and correct list of all outstanding Indebtedness of the Company and its Subsidiaries as of June 30, 2002, since which date there has been no Material change in the amounts, interest rates, sinking funds, installment payments or maturities of such Indebtedness of the Company or its Subsidiaries. Neither the Company nor any Subsidiary is in default and no waiver of default is currently in effect, in the payment of any principal or interest on any Indebtedness for borrowed money or Capitalized Leases of the Company or such Subsidiary and no event or condition exists with respect to any Indebtedness of the Company or any Subsidiary that would permit (or that with notice or the lapse of time, or both, would permit) one or more Persons to cause such Indebtedness to become due and payable before its stated maturity or before its regularly scheduled dates of payment.

(b) Except as disclosed in Schedule 5.15, neither the Company nor any Subsidiary has agreed or consented to cause or permit in the future (upon the happening of a contingency or otherwise) any of its property, whether now owned or hereafter acquired, to be subject to a Lien not permitted by Section 10.3.

Section 5.16. Foreign Assets Control Regulations, Etc. The exchange of the Existing Notes for the Notes by the Company hereunder and compliance by the Company with the provisions hereof and of the Notes will not violate the Trading with the Enemy Act, as amended, any of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended), or the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (enacted October 26, 2001), or any enabling legislation or executive order relating to any of the foregoing. Without limiting the foregoing, neither the Company nor any of its Subsidiaries (a) is a blocked person described in Section 1 of Executive Order 13224 of September 23, 2001 Blocking Property and Prohibiting Transactions With Persons Who Commit and Threaten to Commit, or Support Terrorism (66 Fed. Reg. 49049 (2001)) or (b) knowingly engages in any dealings or transactions, or is otherwise associated, with any such blocked person.

Section 5.17. Status under Certain Statutes. Neither the Company nor any Subsidiary is an "investment company" registered or required to be registered under the Investment Company Act of 1940, as amended, or is subject to regulation under the Public Utility Holding Company Act of 1935, as amended, the ICC Termination Act of 1995, as amended, or the Federal Power Act, as amended.

Section 5.18. Environmental Matters. Except as set forth in Schedule 5.18 and in the 10-K and the 10-Qs,

(a) the Company complies with all applicable Environmental Laws, except where the failure to comply could not reasonably be expected to have a Material Adverse Effect; and

(b) neither the Company nor any Subsidiary has knowledge of any claim or has received any written notice of any claim, and no proceeding has been instituted raising any claim against the Company or any of its Subsidiaries or any of their respective real properties now or formerly owned, leased or operated by any of them or other assets, alleging any damage to the environment or violation of any Environmental Laws, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect.

Section 6. Representations of the Noteholder.

Section 6.1. Acquisition for Investment. Each Noteholder represents that it acquired the Existing Notes amended and restated hereunder for its own account or for one or more separate accounts maintained by it or for the account of one or more pension or trust funds and not with a view to the distribution thereof, provided that the disposition of such Noteholder's or such pension or trust funds' property shall at all times be within such Noteholder's or such pension or trust funds' control. Each Noteholder understands that the Notes have not been registered under the Securities Act and may be resold only if registered pursuant to the provisions of the Securities Act or if an exemption from registration is available, except under circumstances where neither such registration nor such an exemption is required by law, and that the Company is not required to register the Notes.

Section 6.2. Source of Funds. Each Noteholder represents that at least one of the following statements is an accurate representation as to each source of funds (a "Source") used by it to pay the purchase price of the Existing Notes amended and restated hereunder:

(a) the Source is an "insurance company general account" within the meaning of Department of Labor Prohibited Transaction Exemption ("PTE") 95-60 (issued July 12, 1995) and there is no employee benefit plan, treating as a single plan, all plans maintained by the same employer or employee organization, with respect to which the amount of the general account reserves and liabilities for all contracts held by or on behalf of such plan, exceed ten percent (10%) of the total reserves and liabilities of such general account (exclusive of separate account liabilities) plus surplus, as set forth in the NAIC Annual Statement for such Noteholder most recently filed with such Noteholder's state of domicile; or

(b) the Source is either (i) an insurance company pooled separate account, within the meaning of PTE 90-1 (issued January 29, 1990), or (ii) a bank collective investment fund, within the meaning of the PTE 91-38 (issued July 12, 1991) and, except as such Noteholder has disclosed to the Company in writing pursuant to this paragraph (b), no employee benefit plan or group of plans maintained by the same employer or employee organization beneficially owns more than 10% of all assets allocated to such pooled separate account or collective investment fund; or

(c) the Source constitutes assets of an "investment fund" (within the meaning of Part V of the QPAM Exemption) managed by a "qualified professional asset manager" or "QPAM" (within the meaning of Part V of the QPAM Exemption), no employee benefit plan's assets that are included in such investment fund, when combined with the assets of all other employee benefit plans established or maintained by the same employer or by an affiliate (within the meaning of Section V(c)(1) of the QPAM Exemption) of such employer or by the same employee organization and managed by such QPAM, exceed 20% of the total client assets managed by such QPAM, the conditions of Part I(c) and (g) of the QPAM Exemption are satisfied, neither the QPAM nor a person controlling or controlled by the QPAM (applying the definition of "control" in Section V(e) of the QPAM Exemption) owns a 5% or more interest in the Company and (i) the identity of such QPAM and (ii) the names of all employee benefit plans whose assets are included in such investment fund have been disclosed to the Company in writing pursuant to this paragraph (c); or

(d) the Source is a governmental plan; or

(e) the Source is one or more employee benefit plans, or a separate account or trust fund comprised of one or more employee benefit plans, each of which has been identified to the Company in writing pursuant to this paragraph (e); or

(f) the Source does not include assets of any employee benefit plan, other than a plan exempt from the coverage of ERISA.

If any Noteholder or any subsequent transferee of the Notes indicates in writing that such Noteholder or such transferee is relying on any representation contained in paragraph (b), (c) or (e) above, the Company shall deliver on the Effective Date and on the date of any applicable transfer a certificate, which shall either state that (i) it is neither a party in interest nor a "disqualified person" (as defined in Section 4975(e)(2) of the Code), with respect to any plan identified pursuant to paragraphs (b) or (e) above, or (ii) with respect to any plan, identified pursuant to paragraph (c) above, neither it nor any "affiliate" (as defined in Section V(c) of the QPAM Exemption) has at such time, and during the immediately preceding one year, exercised the authority to appoint or terminate said QPAM as manager of any plan identified in writing pursuant to paragraph (c) above or to negotiate the terms of said QPAM's management agreement on behalf of any such identified plan. As used in this Section 6.2, the terms "employee benefit plan", "governmental plan", "party in interest" and "separate account" shall have the respective meanings assigned to such terms in Section 3 of ERISA.

Section 7. Information as to Company.

Section 7.1. Financial and Business Information. The Company shall deliver to each holder of Notes that is an Institutional Investor:

(a) Quarterly Statements -- within 60 days after the end of each quarterly fiscal period in each fiscal year of the Company (other than the last quarterly fiscal period of each such fiscal year), duplicate copies of:

(i) a consolidated balance sheet of the Company and its Subsidiaries as at the end of such quarter, and

(ii) consolidated statements of income, changes in shareholders' equity and cash flows of the Company and its Subsidiaries for such quarter and (in the case of the second and third quarters) for the portion of the fiscal year ending with such quarter,

setting forth in each case in comparative form the figures for the corresponding periods in the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP applicable to quarterly financial statements generally, and certified by a Senior Financial Officer as fairly presenting, in all material respects, the financial position of the companies being reported on and their results of operations and cash flows, subject to changes resulting from year-end adjustments, provided that delivery within the time period specified above of copies of the Company's Quarterly Report on Form 10-Q prepared in compliance with the requirements therefor and filed with the Securities and Exchange Commission shall be deemed to satisfy the requirements of this Section 7.1(a);

(b) Annual Statements-- within 90 days after the end of each fiscal year of the Company, duplicate copies of:

(i) a consolidated balance sheet of the Company and its Subsidiaries, as at the end of such year, and

(ii) consolidated statements of income, changes in shareholders' equity and cash flows of the Company and its Subsidiaries, for such year,

setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP, and accompanied by

(A) an opinion thereon of independent certified public accountants of recognized national standing, which opinion shall state that such financial statements present fairly, in all material respects, the financial position of the companies being reported upon and their results of operations and cash flows and have been prepared in conformity with GAAP, and that the examination of such accountants in connection with such financial statements has been made in accordance with generally accepted auditing standards, and that such audit provides a reasonable basis for such opinion in the circumstances, and

(B) a certificate of such accountants stating that they have reviewed this Agreement and containing substantially the following: "We have audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheet of Stepan Company as of December 31, 20xx, and the related statements of income, stockholders' equity, and cash flows for the year then ended, and have issued our report

thereon. In connection with our audit, nothing came to our attention that caused us to believe that the Company failed to comply with the terms, covenants, provisions or conditions of Section 10.1, 10.2(a)(iii) and 10.6 of the Amended and Restated Note Agreement dated as of December 1, 2002, with the holders of the Notes stated therein (the "Noteholders") insofar as they relate to financial and accounting matters (except as hereinafter specified). However, our audit was not directed primarily toward obtaining knowledge of noncompliance with such Sections. This report is intended solely for the information and use of the boards of directors and management of Stepan Company and the Noteholders, and is not intended to be and should not be used by anyone other than these specified parties."

provided that the delivery within the time period specified above of the Company's Annual Report on Form 10-K for such fiscal year (together with the Company's annual report to shareholders, if any, prepared pursuant to Rule 14a-3 under the Exchange Act) prepared in accordance with the requirements therefor and filed with the Securities and Exchange Commission, together with the accountant's certificate described in clause (B) above, shall be deemed to satisfy the requirements of this Section 7.1(b);

(c) Restricted Subsidiaries and Unrestricted Subsidiaries -- if, and so long as, the Company has (i) one or more Restricted Subsidiaries, the financial statements referred to in Section 7.1(a) and Section 7.1(b) shall be on a consolidated basis prepared in accordance with GAAP, or (ii) one or more Unrestricted Subsidiaries, the Company shall deliver to the holders of the Notes, promptly after receipt thereof, copies of balance sheets and income and surplus and cash flows statements of each such Subsidiary, prepared in accordance with GAAP, which are not included in the financial statements furnished pursuant to Section 7.1(b), in the form delivered to the Company for the fiscal year of each such Subsidiary;

(d) SEC and Other Reports -- promptly upon their becoming available, one copy of (i) each financial statement, report, notice or proxy statement sent by the Company or any Subsidiary to public securities holders generally, and (ii) each regular or periodic report, each registration statement (without exhibits except as expressly requested by such holder), and each prospectus and all amendments thereto filed by the Company or any Subsidiary with the Securities and Exchange Commission and of all press releases and other statements made available generally by the Company or any Subsidiary to the public concerning developments that are Material;

(e) Notice of Default or Event of Default -- promptly, and in any event within five Business Days (i) after a Responsible Officer becoming aware of the existence of any Default or Event of Default or that any Person has given any notice or taken any action with respect to a claimed default hereunder or that any Person has given any notice or taken any action with respect to a claimed default of the type referred to in Section 11(f), a written notice specifying the nature and period of existence thereof and what action the Company is taking or proposes to take with respect thereto and (ii) of their becoming

available, one copy of any letter, certificate or other writing supplied by the Company's independent public accountants to any other Person pertaining to whether such accountants have cause to believe that there has been any default by the Company under any other agreement or evidence of Indebtedness;

(f) ERISA Matters -- promptly, and in any event within five Business Days after a Responsible Officer becoming aware of any of the following, a written notice setting forth the nature thereof and the action, if any, that the Company or an ERISA Affiliate proposes to take with respect thereto:

(i) with respect to any Plan, any reportable event, as defined in section 4043(b) of ERISA and the regulations thereunder, for which notice thereof has not been waived pursuant to such regulations as in effect on the date hereof; or

(ii) the taking by the PBGC of steps to institute, or the threatening by the PBGC of the institution of, proceedings under section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan, or the receipt by the Company or any ERISA Affiliate of a notice from a Multiemployer Plan that such action has been taken by the PBGC with respect to such Multiemployer Plan; or

(iii) any event, transaction or condition that could result in the incurrence of any liability by the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or such penalty or excise tax provisions, if such liability or Lien, taken together with any other such liabilities or Liens then existing, could reasonably be expected to have a Material Adverse Effect;

(g) Notices from Governmental Authority -- promptly, and in any event within 30 days of receipt thereof, copies of any notice to the Company or any Subsidiary of which a Responsible Officer is aware from any Federal or state Governmental Authority relating to any order, ruling, statute or other law or regulation that could reasonably be expected to have a Material Adverse Effect, provided that, with respect to notices regarding environmental matters at the Company's Maywood, New Jersey property, the Company shall only be required to send copies of such notices containing information regarding (i) adverse developments which are Material or (ii) matters not previously disclosed that could reasonably be expected to have a Material Adverse Effect; and

(h) Notice of Change of Control -- without limiting the obligations of the Company set forth in Section 8.3, promptly, and in any event within two Business Days of the earlier of becoming aware of the execution of a Definitive Agreement by the

Company or the consummation of a Change of Control (as defined in Section 8.3), give notice thereof to all holders of the Notes; and

(i) Requested Information -- with reasonable promptness, such other data and information relating to the business, operations, affairs, financial condition, assets or properties of the Company or any of its Subsidiaries or relating to the ability of the Company to perform its obligations hereunder and under the Notes as from time to time may be reasonably requested by any such holder of Notes.

Section 7.2. Officer's Certificate. Each set of financial statements delivered to a holder of Notes pursuant to Section 7.1(a) or Section 7.1(b) hereof shall be accompanied by a certificate of a Senior Financial Officer setting forth:

(a) Covenant Compliance -- the information (including reasonably detailed calculations) required in order to establish whether the Company was in compliance with the requirements of Section 10.1 through Section 10.10 hereof, inclusive, during the quarterly or annual period covered by the statements then being furnished (including with respect to each such Section, where applicable, the calculations of the maximum or minimum amount, ratio or percentage, as the case may be, permissible under the terms of such Sections, and the calculation of the amount, ratio or percentage then in existence); and

(b) Event of Default -- a statement that such officer has reviewed the relevant terms hereof and has made, or caused to be made, under his or her supervision, a review of the transactions and conditions of the Company and its Subsidiaries from the beginning of the quarterly or annual period covered by the statements then being furnished to the date of the certificate and that such review shall not have disclosed the existence during such period of any condition or event that constitutes a Default or an Event of Default or, if any such condition or event existed or exists (including, without limitation, any such event or condition resulting from the failure of the Company or any Subsidiary to comply with any Environmental Law), specifying the nature and period of existence thereof and what action the Company shall have taken or proposes to take with respect thereto.

Section 7.3. Inspection. The Company shall permit the representatives of each holder of Notes that is an Institutional Investor:

(a) No Default -- if no Default or Event of Default then exists, at the expense of such holder and upon reasonable prior notice to the Company, to visit the principal executive office of the Company, to discuss the affairs, finances and accounts of the Company and its Subsidiaries with the Company's officers, and (with the consent of the Company, which consent will not be unreasonably withheld) its independent public accountants with a representative of the Company being present, at the option of the Company, and (with the consent of the Company, which consent will not be unreasonably withheld) to visit the other offices and properties of the Company and each Subsidiary, all at such reasonable times and as often as may be reasonably requested in writing; and

(b) Default -- if a Default or Event of Default then exists, at the expense of the Company, to visit and inspect any of the offices or properties of the Company or any Subsidiary, to examine all their respective books of account, records, reports and other papers, to make copies and extracts therefrom, and to discuss their respective affairs, finances and accounts with their respective officers and independent public accountants (and by this provision the Company authorizes said accountants to discuss the affairs, finances and accounts of the Company and its Subsidiaries), all at such times and as often as may be requested.

Section 8. Prepayment of the Notes.

Section 8.1. Required Prepayments. In addition to paying the entire outstanding principal amount and the interest due on the Notes on the maturity date thereof, on April 1 in each year, commencing April 1, 2003 and ending April 1, 2005 (herein called "Fixed Payment Dates"), both inclusive, the Company will prepay \$1,000,000 principal amount (or such lesser principal amount as shall then be outstanding) of the Notes at par and without payment of the Make-Whole Amount or any premium, provided that upon any partial prepayment of the Notes pursuant to Section 8.2 or Section 8.3 or purchase of the Notes permitted by Section 8.6 the principal amount of each required prepayment of the Notes becoming due under this Section 8.1 on and after the date of such prepayment or purchase shall be reduced in the same proportion as the aggregate unpaid principal amount of the Notes is reduced as a result of such prepayment or purchase.

Section 8.2. Optional Prepayments. (a) Without Make-Whole Amount. In addition to the prepayments required by Section 8.1, the Company, at its option, upon notice as provided below, shall have the privilege (which shall be non-cumulative) of prepaying outstanding Notes on any Fixed Payment Date in units of \$100,000 or an integral multiple of \$10,000 in excess thereof, by payments of the principal amount of the Notes to be prepaid and accrued interest thereon to the date of such payment and without premium; provided however that the principal amount of Notes that may be prepaid pursuant to this Section 8.2(a) on any one Fixed Payment Date shall not exceed the principal amount of the Notes required to be prepaid pursuant to Section 8.1 on such Fixed Payment Date.

(b) With Make-Whole Amount. In addition to the prepayments required by Section 8.1 and the rights of prepayment set forth in Section 8.2(a), the Company may, at its option, upon notice as provided below, prepay at any time all, or from time to time any part of, the Notes, in units of \$1,000,000 or an integral multiple of \$10,000 in excess thereof in the case of a partial prepayment, at 100% of the principal amount so prepaid, together with interest accrued thereon to the date of such prepayment, plus the Make-Whole Amount determined for the prepayment date with respect to such principal amount.

(c) Notices of Optional Prepayments. The Company will give each holder of Notes written notice of each optional prepayment under Section 8.2(a) and Section 8.2(b) not less than 30 days and not more than 60 days prior to the date fixed for such prepayment. Each such notice shall specify such date, the aggregate principal amount of the Notes to be prepaid on such date, the principal amount of each Note held by such holder to be prepaid (determined in accordance

with Section 8.4), and the interest to be paid on the prepayment date with respect to such principal amount being prepaid, and, in the case of prepayments made pursuant to Section 8.2(b), shall be accompanied by a certificate of a Senior Financial Officer as to the estimated Make-Whole Amount due in connection with such prepayment (calculated as if the date of such notice were the date of the prepayment), setting forth the details of such computation. Two Business Days prior to such prepayment, the Company shall deliver to each holder of Notes a certificate of a Senior Financial Officer specifying the calculation of such Make-Whole Amount as of the specified prepayment date.

Section 8.3. Prepayment on Failure of Noteholders to Consent to Change of Control. In the event that the Company shall request the holders of the Notes in writing to consent to a Change of Control and the holder or holders of any Notes shall, within 30 days following the receipt of such a request, have refused in writing to consent to such a Change of Control, then the Company may at its option, but shall prior to the Change of Control, at any time within 30 days after the earlier of (x) the receipt of a response to such request from the holder or holders of 100% of the outstanding Notes, or (y) the expiration of such 30 day period, and upon not less than three Business Days prior written notice, prepay all (but not less than all) Notes held by each holder which has refused to consent to such Change of Control by prepayment of the principal amount thereof and accrued interest thereon to the date of such prepayment, but without any premium or Make Whole Amount. Any holder which has failed to respond in writing to such request prior to the expiration of such 30 day period shall, for all purposes hereof, be deemed to have consented to such Change of Control. Any request by the Company made pursuant to this Section 8.3 shall set forth (i) a summary of the transaction or transactions causing the Change of Control, (ii) the name and address of the "person" described in clause (i) or (ii) of the definition of the term "Change of Control" set forth below, (iii) such information relating to the acquiror and pro forma financial or other information as would be reasonably necessary for each holder to make an informed decision with respect to such request, (iv) a statement as to whether, at the time of such Change of Control and after giving effect thereto, either any Event of Default or any event which, with the passage of time or giving of notice, or both, would become an Event of Default, shall have occurred and be continuing and (v) a specific reference to this Section 8.3 and the requirement that the holders must respond in writing by the date set forth in the notice and that failure to respond in writing by such specified date shall be deemed consent by such holder to the Change of Control. In the event that the Company shall receive a response to its request from any holder of a Note, it will promptly deliver a copy thereof to all other holders of Notes.

For purposes of this Agreement, the term "Change of Control" shall mean and shall be deemed to have occurred, (i) upon the Acquisition by any "person" (as that term is used in Sections 13(d) and 14(d)(2) of the Exchange Act) of beneficial ownership, direct or indirect, of more than 50% of the outstanding Voting Stock of the Company, or (ii) upon the Acquisition of the Company, or all or substantially all of its assets by, or the combination of the Company, or all or substantially all of its assets with, another "person" (as defined above), unless, in the case of either of the foregoing clauses (i) or (ii), the acquiring or surviving "person" shall be a corporation more than 50% of the outstanding Voting Stock of which is owned, immediately after such Acquisition or combination, by the owners of the Voting Stock of the Company immediately prior to such Acquisition or combination. The term "Acquisition" shall mean the

earlier to occur of (x) the actual possession of the subject Voting Stock or assets, and (y) the consummation of any transaction or series of related transactions which, with the passage of time, will give such person the actual possession thereof. The term "Voting Stock" shall mean securities of any class or classes, the holders of which are ordinarily, in the absence of contingencies, entitled to elect a majority of the corporate directors (or persons performing similar functions).

Section 8.4. Allocation of Partial Prepayments. In the case of each partial prepayment of the Notes pursuant to Sections 8.2(a) and 8.2(b), the principal amount of the Notes to be prepaid shall be allocated among all of the Notes at the time outstanding in proportion, as nearly as practicable, to the respective unpaid principal amounts thereof. All partial prepayments made pursuant to Section 8.3 shall be applied only to the Notes of the holders who have refused in writing to consent to a Change of Control.

Section 8.5. Maturity; Surrender, Etc. In the case of each prepayment of Notes pursuant to this Section 8, the principal amount of each Note to be prepaid shall mature and become due and payable on the date fixed for such prepayment, together with interest on such principal amount accrued to such date and the applicable Make-Whole Amount, if any. From and after such date, unless the Company shall fail to pay such principal amount when so due and payable, together with the interest and Make-Whole Amount, if any, as aforesaid, interest on such principal amount shall cease to accrue. Any Note paid or prepaid in full shall be surrendered to the Company and cancelled and shall not be reissued, and no Note shall be issued in lieu of any prepaid principal amount of any Note.

Section 8.6. Purchase of Notes. The Company will not and will not permit any Affiliate to purchase, redeem, prepay or otherwise acquire, directly or indirectly, any of the outstanding Notes except upon the payment or prepayment of the Notes in accordance with the terms of this Agreement and the Notes. The Company will promptly cancel all Notes acquired by it or any Affiliate pursuant to any payment, prepayment or purchase of Notes pursuant to any provision of this Agreement and no Notes may be issued in substitution or exchange for any such Notes.

Section 8.7. Make-Whole Amount. The term "Make-Whole Amount" means, with respect to any Note, an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments with respect to the Called Principal of such Note over the amount of such Called Principal, provided that the Make-Whole Amount may in no event be less than zero. For the purposes of determining the Make-Whole Amount, the following terms have the following meanings:

"Called Principal" means, with respect to any Note, the principal of such Note that is to be prepaid pursuant to Section 8.2(b) or has become or is declared to be immediately due and payable pursuant to Section 12.1, as the context requires.

"Discounted Value" means, with respect to the Called Principal of any Note, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a

discount factor (applied on the same periodic basis as that on which interest on the Notes is payable) equal to the Reinvestment Yield with respect to such Called Principal.

"Reinvestment Yield" means, with respect to the Called Principal of any Note, 0.50% over the yield to maturity implied by (i) the yields reported, as of 10:00 A.M. (New York City time) on the second Business Day preceding the Settlement Date with respect to such Called Principal, on page "PX-1" of the Bloomberg Financial Markets Service Screen (or, if not available, any other nationally recognized trading screen reporting on-line intraday trading in U.S. Treasury securities) for actively traded U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or (ii) if no such nationally recognized trading screen reporting on-line intraday trading in United States government securities is available, the Treasury Constant Maturity Series Yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. Such implied yield will be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond-equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between (1) the actively traded U.S. Treasury security with the duration closest to and greater than the Remaining Average Life and (2) the actively traded U.S. Treasury security with the duration closest to and less than the Remaining Average Life.

"Remaining Average Life" means, with respect to any Called Principal, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) the principal component of each Remaining Scheduled Payment with respect to such Called Principal by (b) the number of years (calculated to the nearest one-twelfth year) that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

"Remaining Scheduled Payments" means, with respect to the Called Principal of any Note, all payments of such Called Principal and interest thereon that would be due after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date, provided that if such Settlement Date is not a date on which interest payments are due to be made under the terms of the Notes, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date pursuant to Section 8.2 or 12.1.

"Settlement Date" means, with respect to the Called Principal of any Note, the date on which such Called Principal is to be prepaid pursuant to Section 8.2 or has become or is declared to be immediately due and payable pursuant to Section 12.1, as the context requires.

Section 9. Affirmative Covenants.

The Company covenants that so long as any of the Notes are outstanding:

Section 9.1. Compliance with Law. The Company will, and will cause each of its Subsidiaries to, comply with all laws, ordinances or governmental rules or regulations to which each of them is subject, including, without limitation, Environmental Laws, and will obtain and maintain in effect all licenses, certificates, permits, franchises and other governmental authorizations necessary to the ownership of their respective properties or to the conduct of their respective businesses, in each case, except to the extent that non-compliance with such laws, ordinances or governmental rules or regulations, or failure to obtain or maintain in effect such licenses, certificates, permits, franchises and other governmental authorizations, could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

Section 9.2. Insurance. The Company will, and will cause each of its Subsidiaries to, maintain, with financially sound and reputable insurers, insurance with respect to their respective properties and businesses against such casualties and contingencies, of such types, on such terms and in such amounts (including deductibles, co-insurance and self-insurance, if adequate reserves are maintained with respect thereto) as is customary in the case of entities of established reputations engaged in the same or a similar business and similarly situated.

Section 9.3. Maintenance of Properties. The Company will, and will cause each of its Subsidiaries to, maintain and keep, or cause to be maintained and kept, their respective Material properties in good repair, working order and condition (other than ordinary wear and tear), so that the business carried on in connection therewith may be properly conducted at all times, provided that this Section shall not prevent the Company or any Subsidiary from discontinuing the operation and the maintenance of any of its properties if such discontinuance is desirable in the conduct of its business.

Section 9.4. Payment of Taxes and Claims. The Company will, and will cause each of its Subsidiaries to, file all tax returns required to be filed in any jurisdiction and to pay and discharge all taxes shown to be due and payable on such returns and all other taxes, assessments, governmental charges, or levies imposed on them or any of their properties, assets, income or franchises, to the extent such taxes and assessments have become due and payable and before they have become delinquent and all claims for which sums have become due and payable that have or might become a Lien on properties or assets of the Company or any Subsidiary, provided that neither the Company nor any Subsidiary need pay any such tax or assessment or claims if (a) the amount, applicability or validity thereof is contested by the Company or such Subsidiary on a timely basis in good faith and in appropriate proceedings, and the Company or a Subsidiary has established adequate reserves therefor in accordance with GAAP on the books of the Company or such Subsidiary or (b) the nonpayment of all such taxes and assessments in the aggregate could not reasonably be expected to have a Material Adverse Effect.

Section 9.5. Corporate Existence, Etc. The Company will at all times preserve and keep in full force and effect its corporate existence. Subject to Section 10.8, the Company will at all times preserve and keep in full force and effect the corporate existence of each of its Restricted

Subsidiaries (unless merged into the Company or a Wholly-Owned Restricted Subsidiary or dissolved and the property and assets of such Subsidiary are divided up to the Company or to a Wholly-Owned Restricted Subsidiary) and all rights and franchises of the Company and its Subsidiaries unless, in the good faith judgment of the Company, the termination of or failure to preserve and keep in full force and effect such corporate existence, right or franchise could not, individually or in the aggregate, have a Material Adverse Effect.

Section 9.6. Payment of Principal, Make-Whole Amount and Interest. The Company will pay or cause to be paid when due the principal and interest, and Make-Whole Amount, if any, to become due in respect of all the Notes according to the terms thereof.

Section 9.7. Keeping of Books. The Company will, and will cause each Subsidiary to, (a) at all times keep proper books of record and account in which full, true and correct entries will be made of its transactions in accordance with GAAP; and (b) set aside on its books from its earnings, for the fiscal year ending December 31, 2002, and each fiscal year thereafter, proper reserves which, in accordance with GAAP, should be set aside from such earnings in connection with its business.

Section 9.8. Guaranty by Subsidiaries. The Company will cause each Subsidiary which delivers a Guaranty to any Person (collectively, the "Subsidiary Guarantors") in respect of any Indebtedness of the Company outstanding under the Revolving Credit Agreement to concurrently enter into a Subsidiary Guaranty, and within five Business Days thereafter shall deliver to each of the holders of the Notes the following items:

(a) an executed counterpart of such Subsidiary Guaranty or joinder agreement in respect of an existing Subsidiary Guaranty, as appropriate;

(b) an executed counterpart of an intercreditor agreement among the holders of the Notes and each such Person to which a Subsidiary is then delivering a Guaranty giving rise to the requirements of this Section 9.8, which agreement shall be in form and substance reasonably satisfactory to the holders of the Notes and shall provide that the proceeds from the enforcement of all such Subsidiary Guaranties shall be shared on an equal and ratable basis among the holders of the Notes and such other Persons; and

(c) an opinion of counsel satisfactory to the Required Holders to the effect that such Subsidiary Guaranty has been duly authorized, executed and delivered and constitutes the legal, valid and binding contract and agreement of such Subsidiary enforceable in accordance with its terms, except as an enforcement of such terms may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws affecting the enforcement of creditors' rights generally and by general equitable principles.

Section 10. Negative Covenants.

The Company covenants that so long as any of the Notes are outstanding:

Section 10.1. Financial Covenants.

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

(b) Funded Indebtedness Limitation. At no time shall the Company permit the ratio of (i) Consolidated Funded Indebtedness of the Company and its Restricted Subsidiaries to (ii) Consolidated Capitalization to exceed 0.55 to 1.00; provided that for purposes of this Section 10.1(b) all Indebtedness secured pursuant to the provisions of Sections 10.3(b), (c) and (d) shall constitute Funded Indebtedness.

(c) Secured Funded Indebtedness Limitation. The Company will not create, incur, issue, assume or become liable, contingently or otherwise, in respect of any secured Funded Indebtedness other than secured Funded Indebtedness incurred or assumed solely for the purpose of financing the acquisition of any property and secured only as permitted under Sections 10.3(b), (c) and (d), provided that

(x) the aggregate unpaid principal amount of all Indebtedness of the Company and its Restricted Subsidiaries secured by the mortgages or Liens permitted by Sections 10.3(b), (c) and (d) shall not at any time exceed an amount equal to 10% of Consolidated Capitalization, and

(y) the sum, without duplication, of (i) the aggregate unpaid principal amount of all Indebtedness of Restricted Subsidiaries permitted by Section 10.2(a)(iii)(A) (excluding Specified Subsidiary Indebtedness), (ii) the aggregate unpaid principal amount of all Indebtedness of the Company secured pursuant to the provisions of Sections 10.3(b), (c) and (d), and (iii) the aggregate amount of liabilities of the Company and its Restricted Subsidiaries secured by Liens permitted pursuant to the provisions of Section 10.3(k), shall not at any time exceed 20% of Consolidated Capitalization.

Section 10.2. Limitations on Restricted Subsidiaries. The Company will not cause, suffer or permit any Restricted Subsidiary to:

(a) create, incur, issue, assume or become or be liable, contingently or otherwise, in respect of any Indebtedness except:

(i) Indebtedness owing to the Company or to a Wholly-Owned Restricted Subsidiary,

(ii) unsecured accounts payable and other unsecured obligations (other than as a result of borrowing) incurred in the ordinary course of business of such Subsidiary, and

(iii) Indebtedness in addition to that described in subclauses (i) and (ii) above; provided that

(A) the aggregate principal amount of all Indebtedness of Restricted Subsidiaries (other than as described in subclauses (i) and (ii) above and other than Specified Subsidiary Indebtedness) shall not at any time exceed 10% of Consolidated Capitalization;

(B) the sum, without duplication, of (x) the aggregate unpaid principal amount of all such Indebtedness permitted by subclause (iii)(A), (y) the aggregate unpaid principal amount of all Indebtedness of the Company secured pursuant to the provisions of Sections 10.3(b), (c) and (d), and (z) the aggregate amount of liabilities of the Company and its Restricted Subsidiaries secured by Liens permitted pursuant to the provisions of Section 10.3(k), shall not at any time exceed 20% of Consolidated Capitalization; and

(C) at the time of creation, incurrence, issuance, assumption or guarantee thereof and after giving effect thereto and to the application of the proceeds thereof, no Default or Event of Default would exist (including, without limitation, under Section 10.1(b) hereof); or

(b) issue or sell any shares of its capital stock or securities convertible into such capital stock except (i) issuance or sale of directors' qualifying shares, (ii) issuance or sale to the Company or to any Wholly-Owned Restricted Subsidiary, (iii) issuance or sale of additional shares of stock of any such Subsidiary to any holders thereof entitled to receive or purchase such additional shares through the declaration of a stock dividend or through the exercise of preemptive rights and (iv) issuance or sale to any Substantially-Owned Restricted Subsidiary for fair value, provided that the Dilution of the Company's and its Restricted Subsidiaries' interests in the Subsidiary whose shares of capital stock or convertible securities are so issued or sold shall be treated as a sale of assets by the Company and such sale or deemed sale shall be permitted by Section 10.8; or

(c) sell, assign, transfer or otherwise dispose of any shares of capital stock of any class of any other Restricted Subsidiary, or any other security of, or any Indebtedness owing to it by, any other Restricted Subsidiary (except in each case to the Company or to a Wholly-Owned Restricted Subsidiary) unless such sale, assignment, transfer or other disposition (i) shall be to a Substantially-Owned Restricted Subsidiary for fair value and the Dilution of the Company's and its Restricted Subsidiaries' interests in the Subsidiary whose shares of capital stock, securities or Indebtedness are so sold, assigned, transferred or disposed of shall be treated as a sale of assets of the Company and such sale or deemed sale shall be permitted by Section 10.8 or (ii) shall meet all the conditions set forth in Section 10.7 which would be applicable to a similar disposition made by the Company; or

(d) consolidate with or merge into any other corporation or permit any other corporation to merge into it, except a merger into or consolidation with (i) the Company, (ii) any Wholly-Owned Restricted Subsidiary or (iii) any other corporation if, immediately thereafter, (y) the surviving corporation shall be a Restricted Subsidiary, and (z) the Company shall be in full compliance with all the terms and provisions of this Agreement and the Notes; or

(e) sell, lease, transfer or otherwise dispose of all or any substantial part of its property and assets except (i) to the Company or any Wholly-Owned Restricted Subsidiary or (ii) in the case of a sale to any other Person, in compliance with all applicable requirements of Sections 10.7, 10.8 and 10.11; or

(f) make any Investments or commitments to make Investments except as expressly permitted by Section 10.5.

Any corporation which becomes a Restricted Subsidiary after the date hereof shall for all purposes of this Section 10.2 be deemed to have created, assumed or incurred, at the time it becomes a Restricted Subsidiary, all Indebtedness of such corporation existing immediately after it becomes a Restricted Subsidiary.

Section 10.3. Limitations on Liens. The Company will not itself, and will not permit or suffer any Restricted Subsidiary to, create or incur or suffer to be created or incurred or to exist any mortgage, Lien, security interest, charge or encumbrance of any kind on, or pledge of, any property or assets of any kind, real or personal, tangible or intangible, of the Company or any such Subsidiary, whether owned on the Effective Date or thereafter acquired, or acquire or agree to acquire any property or assets of any kind under a conditional sale agreement or other title retention agreement or file or permit the filing of any financing statement under the Uniform Commercial Code or other similar notice under any other similar statute without equally and ratably securing the Notes with all other obligations secured thereby and which security shall be created and conveyed by documentation (which may include an intercreditor agreement) determined prior to such conveyance to be satisfactory in scope, form and substance to the Required Holders and which security shall continue in full force and effect until either (x) the same is released by the Required Holders, (y) all other obligations secured thereby are discharged, or (z) the security is released by the holders of all such other obligations, and in any case the Notes shall have the benefit, to the full extent that the holders may be entitled thereto under applicable law, of an equitable Lien on such property or assets equally and ratably securing the Notes; provided, however, that the provisions of this Section 10.3 shall not prevent or restrict the creation, incurring or existence of any of the following:

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

(b) purchase money mortgages or other Liens on real property (including leaseholds) and fixtures thereon, acquired by the Company or any such Subsidiary, to secure the purchase price of such property (or to secure Indebtedness incurred solely for

the purpose of financing the acquisition of any such property to be subject to such mortgage or other Lien) and created contemporaneously with such acquisition or within 180 days thereafter, or mortgages or other Liens existing on any such property at the time of acquisition of such property by the Company or by such Subsidiary, whether or not assumed, or any mortgage or Lien on real property of such Subsidiary existing at the time of acquisition of such Subsidiary, provided that at the time of the acquisition of the property by the Company or a Restricted Subsidiary, or at the time of the acquisition of the Restricted Subsidiary by the Company, as the case may be, (i) the principal amount of the Indebtedness secured by each such mortgage or Lien, plus the principal amount of all other Indebtedness secured by mortgages or Liens on the same property, shall not exceed 75% (100% in the case of Capitalized Leases) of the cost (which shall be deemed to include the amount of all Indebtedness secured by mortgages or other Liens, including existing Liens, on such property) of such property to the Company or any such Subsidiary, or 75% (100% in the case of Capitalized Leases) of the fair value thereof (without deduction of the Indebtedness secured by mortgages or Liens on such property) at the time of the acquisition thereof by the Company or such Subsidiary, whichever is the lesser, and (ii) every mortgage or Lien shall apply only to the property originally subject thereto and fixed improvements, accessions and attachments constructed or located thereon;

(c) refundings or extensions of the mortgages or Liens permitted in the foregoing clause (b) applying only to the same property theretofore subject to the same and fixed improvements, accessions and attachments constructed or located thereon and for amounts not exceeding the greater of (i) the principal amounts of the Indebtedness so refunded or extended at the time of the refunding or extension thereof or (ii) amounts of additional Indebtedness then permitted under all applicable provisions of Section 10.1, provided that the principal amount of such Indebtedness, plus the principal amount of all other Indebtedness secured by mortgages or Liens on the same property, shall not exceed 75% (100% in the case of Capitalized Leases) of the fair value thereof (without deduction of the Indebtedness secured by mortgages or Liens on such property) at the time of the refunding or extension;

(d) the owning or acquiring or agreeing to acquire machinery or equipment useful for the business of the Company or any such Subsidiary subject to or upon chattel mortgages or conditional sale agreements or other title retention agreements, provided that the principal amounts of the Indebtedness secured by such chattel mortgages, plus the aggregate amounts payable under such conditional sale agreements and other title retention agreements, shall not exceed the limitations set forth in Section 10.1(c);

(e) deposits, Liens or pledges to enable the Company or any such Subsidiary to exercise any privilege or license, or to secure payments of workmen's compensation, unemployment insurance, old age pensions or other social security, or to secure the performance of bids, tenders, contracts (other than for the payment of money) or leases to which the Company or any such Subsidiary is a party, or to secure public or statutory obligations of the Company or any such Subsidiary, or to secure surety, stay or appeal bonds to which the Company or any such Subsidiary is a party, but, as to all of the

foregoing, only if the same shall arise and continue in the ordinary course of business; or other similar deposits or pledges made and continued in the ordinary course of business;

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

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

(h) Liens for taxes not yet subject to penalties for non-payment or contested as permitted by Section 9.4, or survey exceptions, or encumbrances, easements or reservations of, or rights of others for, rights of way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real properties, which encumbrances, easements, reservations, rights and restrictions do not in the aggregate materially detract from the value of said properties or materially impair their use in the operation of the business of the Company or of such Subsidiary owning the same;

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

(j) any arrangement permitted by Section 10.9;

(k) inchoate Liens arising under ERISA to secure contingent liabilities under said Act; or

(l) Liens on accounts receivable and ancillary rights sold (or in which participating interests are sold) in compliance with all applicable requirements of Section 10.8,

provided, however, that the aggregate unpaid principal amount of all Indebtedness of the Company and its Restricted Subsidiaries secured by the mortgages or Liens of the types described in Sections 10.3(b), (c) and (d) shall not at any time exceed the amounts permitted pursuant to Sections 10.1(c) and 10.2(a)(iii)(B).

For purposes of this Agreement, the Company or a Restricted Subsidiary shall be deemed to be the owner of any property which it has acquired or holds subject to a conditional sale agreement, Capitalized Lease or other arrangement pursuant to which the property has been

retained by or vested in some other person for security purposes and such retention or vesting shall constitute a Lien hereunder.

Section 10.4. Limitations on Guaranties. The Company will not itself, and will not permit any Restricted Subsidiary to, guarantee any dividend, or guarantee any obligation or Indebtedness, of any other Person other than (a) guaranties by the Company of obligations or Indebtedness of a Restricted Subsidiary which such Subsidiary shall be authorized to incur pursuant to the provisions of this Agreement, (b) guaranties incurred in the ordinary course of business of the Company or of a Restricted Subsidiary, (c) guaranties by the Company of Indebtedness of Persons other than Restricted Subsidiaries if, and to the extent that, immediately after giving effect thereto, no Default or Event of Default would exist (including, without limitation, under Section 10.1(b), treating all such guaranties as Funded Indebtedness for purposes of such determination), (d) Subsidiary Guaranties and (e) Permitted Guaranties.

Section 10.5. Limitations on Investments. The Company will not itself, and will not permit any Restricted Subsidiary to, make any Investment, or any commitment to make any Investment, if, immediately after giving effect to any such proposed Investment, (a) the aggregate amount of all Investments, including Investments made prior to the Effective Date (all such Investments to be taken at the cost thereof at the time of making such Investment without allowance for any subsequent write-offs or appreciation or depreciation thereof, but less any amount repaid or recovered on account of capital or principal), shall exceed 30% of the Consolidated Tangible Net Worth of the Company and its Restricted Subsidiaries, or (b) Consolidated Funded Indebtedness shall exceed 55% of Consolidated Capitalization.

Section 10.6. Limitations on Dividends. The Company will not declare or pay, or set apart any funds for the payment of, any dividends (other than dividends payable in common stock of the Company) on any shares of capital stock of any class of the Company, or apply any of its funds, property or assets to, or set apart any funds, property or assets for, the purchase, redemption or other retirement of, or make any other distribution, by reduction of capital or otherwise, in respect of, any shares of capital stock of any class of the Company, unless, immediately after giving effect to such action (a) no Default or Event of Default would exist (including, without limitation, under Section 10.1(b) hereof), and (b) the sum of

(1) the amounts declared and paid or payable as, or set apart for, dividends (other than dividends paid or payable in common stock of the Company) on, or distributions (taken at cost to the Company or fair value at time of distribution, whichever is higher) in respect of, all shares of capital stock of all classes of the Company subsequent to December 31, 2001, and

(2) the excess, if any, of the amounts applied to, or set apart for, the purchase, redemption or retirement of all shares of capital stock of all classes of the Company subsequent to December 31, 2001, over the sum of (i) such amounts as shall have been received as the net cash proceeds of sales of shares of capital stock of all classes of the Company subsequent to December 31, 2001, plus (ii) the aggregate principal amount of all Indebtedness of the Company and its Subsidiaries converted into or exchanged for shares of capital stock of the Company subsequent to December 31, 2001,

would not be in excess of (x) \$30,000,000 plus (or minus in the case of a deficit) (y) the Consolidated Net Income of the Company and its Restricted Subsidiaries accrued subsequent to December 31, 2001. The foregoing provisions of this Section 10.6 to the contrary notwithstanding (i) the Company may pay any dividend within 90 days of the date of its declaration if, on the date of declaration, such dividend could properly have been paid within the limitations of this Section 10.6, and (ii) the Company may pay regular dividends on or make payments or purchases required to be made at the time when made by the terms of any sinking fund, purchase fund or mandatory redemption requirement in respect of any outstanding shares of preferred stock of the Company originally issued for cash but all amounts so paid or applied pursuant to clauses (i) and (ii) above shall be included in any subsequent computation of restricted payments under this Section 10.6. The Company will not declare any dividend to be payable more than 90 days after the date of declaration thereof. The Company will not declare any dividend if an Event of Default shall have occurred and be continuing.

Section 10.7. Limitations on Dispositions of Stock or Indebtedness of Restricted Subsidiaries. The Company will not sell, assign, transfer or otherwise dispose of (except to a Wholly-Owned Restricted Subsidiary) any shares of capital stock of any class of any Restricted Subsidiary, or any other security of, or any Indebtedness owing to the Company by, any such Restricted Subsidiary, unless

(a) (i) all of the capital stock and other securities owned by the Company and its Restricted Subsidiaries, and the entire Indebtedness of such Restricted Subsidiary at the time owing to the Company and all its other Restricted Subsidiaries, shall be sold, assigned, transferred or otherwise disposed of, at the same time for cash, (ii) such Restricted Subsidiary shall not, at the time of such sale, assignment, transfer or other disposition, own either (x) any shares of capital stock of any class or any other security or any Indebtedness of any other Restricted Subsidiary of the Company which is not being simultaneously disposed of as permitted by this Section 10.7 or (y) any Indebtedness of the Company, and (iii) such sale, assignment or transfer is permitted by Section 10.8; or

(b) such sale, assignment, transfer or other disposition is to a Substantially-Owned Restricted Subsidiary for fair value and the Dilution of the Company's and its Restricted Subsidiaries' interests in the Subsidiary whose shares of capital stock, securities or Indebtedness are so sold, assigned, transferred or disposed of shall be treated as a sale of assets of the Company and shall be in compliance with the applicable requirements of Section 10.8.

Section 10.8. Limitations on Mergers, Consolidations and Sales of Assets. The Company will not (a) consolidate with or merge into any other Person, or permit any other Person to merge into the Company, unless (i) the surviving or continuing Person shall be either the Company or another solvent corporation organized under the laws of any state of the United States or the District of Columbia having long term unsecured debt which is rated "BBB" or better by Standard & Poor's Corporation or "Baa" or better by Moody's Investors Service, Inc., (ii) the due and punctual payment of the principal of and Make-Whole Amount, if any, and interest on all of the Notes according to their tenor, and this Agreement to be performed or observed by the Company are expressly assumed in writing by the surviving corporation and the surviving corporation shall furnish to the holders of the Notes an opinion of counsel satisfactory to such

holders to the effect that the instrument of assumption has been duly authorized, executed and delivered and constitutes the legal, valid and binding contract and agreement of the surviving corporation enforceable in accordance with its terms, except as enforcement of such terms may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws affecting the enforcement of creditors' right generally and by general equitable principles, and (iii) no Event of Default shall exist at the time of, or result from, such merger or consolidation; or (b) sell, lease, transfer or otherwise dispose of all or any substantial part of its property and assets.

For the purposes of this Section 10.8 and Section 10.2(e), a sale, lease, transfer or disposition of properties or assets of the Company or a Restricted Subsidiary shall be deemed to be of a "substantial part" thereof only if the fair market value of such properties or assets, when added to the fair market value of all other properties or assets sold, leased, transferred or disposed of by the Company and its Restricted Subsidiaries, other than (x) in the ordinary course of business, or (y) in an Approved Transaction, during the 365 day period ending on the date of the consummation of such sale, lease, transfer or disposition exceeds 15% of the Consolidated Assets of the Company and its Restricted Subsidiaries determined as of the end of the Company's immediately preceding fiscal year.

As used herein, the term "Approved Transaction" shall mean any sale, lease, transfer or disposition of properties or assets to the extent that the Company shall, within 5 Business Days of such sale, lease, transfer or disposition, certify in writing to each holder of outstanding Notes that such transaction shall constitute an "Approved Transaction" for all purposes hereof.

The Company will, on a date not later than the 365th day after the occurrence of any Approved Transaction, apply an amount equal to the after tax proceeds of each Approved Transaction to either

(i) the purchase, acquisition or construction of capital assets which are useful and to be used in the surfactant, polymer, or specialty chemical business of the Company or a Restricted Subsidiary or a line of business reasonably related to the foregoing or any other line of business in which the Company and its Subsidiaries are engaged as of the Effective Date and described in the 10-K; or

(ii) the prepayment of unsecured Funded Indebtedness of the Company, including the concurrent prepayment of Notes pursuant to the provisions of Section 8.2(b) hereof pro rata with all other unsecured Funded Indebtedness then being prepaid;

provided, however, that to the extent that, at any time, the fair market value of all properties or assets which were the subject of Approved Transactions (an amount equal to the net after tax proceeds of which have not theretofore been applied as contemplated in clause (i) or clause (ii) above) exceeds 10% of the Consolidated Assets of the Company and its Restricted Subsidiaries, determined as of the end of the fiscal year of the Company immediately preceding any determination hereunder, the Company will, on a date not later than the 30th day after such determination, apply the net after tax proceeds of such excess Approved Transactions in the manner contemplated in clause (i) or clause (ii) above.

Section 10.9. Limitations on Sale-and-Leasebacks. The Company will not itself, and will not permit any Restricted Subsidiary to, enter into any arrangement, directly or indirectly, with any person whereby the Company or such Subsidiary shall sell or transfer any manufacturing plant or equipment owned or acquired by the Company or such Subsidiary and then or thereafter rent or lease, as lessee, such property or any part thereof, or other property which the Company or such Subsidiary, as the case may be, intends to use for substantially the same purpose or purposes as the property being sold or transferred, unless (a) the lease covering such property or other property shall be for a term of not less than three years, and (b) the Company could then have outstanding unsecured Funded Indebtedness under Section 10.1(b) in an amount not less than the capitalized value of the rentals payable by the Company or such Subsidiary, as the case may be, under such lease determined in accordance with GAAP.

Section 10.10. Limitations on Rentals. The Company will not itself, and will not permit any Restricted Subsidiary to, enter into, as lessee, or be a party to, any lease of property if, immediately after giving effect to such lease, the aggregate amount of Rentals (excluding up to \$2,500,000 of tank car rentals incurred during such fiscal year and any Rentals payable under Capitalized Leases or under leases between the Company and any Wholly-Owned Restricted Subsidiary or between Wholly-Owned Restricted Subsidiaries) for any fiscal year of the Company payable by the Company and its Restricted Subsidiaries with respect to all such leases shall exceed 5% of Consolidated Tangible Net Worth of the Company and its Restricted Subsidiaries. For the purposes of this Section 10.10, the term "Rentals," with respect to any lease and for any period, shall mean the aggregate amount payable by the lessee under such lease for such period to the lessor.

Section 10.11. Transactions with Affiliates. Notwithstanding any other provision hereof, the Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into any transaction with any Affiliate of the Company (other than a Wholly-Owned Restricted Subsidiary) unless such transaction is in the ordinary course of, and pursuant to the reasonable requirements of, the Company's or such Restricted Subsidiary's business and is determined by the Board of Directors of the Company to be at least as favorable to the Company or such Restricted Subsidiary as generally obtainable at the time from persons other than Affiliates of the Company in a similar transaction.

Section 11. Events of Default.

An "Event of Default" shall exist if any of the following conditions or events shall occur and be continuing:

- (a) the Company defaults in the payment of any principal or Make-Whole Amount, if any, on any Note when the same becomes due and payable, whether at maturity or at a date fixed for prepayment or by declaration or otherwise; or
- (b) the Company defaults in the payment of any interest on any Note for more than five Business Days after the same becomes due and payable; or

(c) the Company defaults in the performance of or compliance with any term contained in Section 10; or

(d) the Company defaults in the performance of or compliance with any term contained herein (other than those referred to in paragraphs (a), (b) and (c) of this Section 11) and such default is not remedied within 30 days after the earlier of (i) a Responsible Officer obtaining actual knowledge of such default and (ii) the Company receiving written notice of such default from any holder of a Note (any such written notice to be identified as a "notice of default" and to refer specifically to this paragraph (d) of Section 11); or

(e) any representation or warranty made in writing by or on behalf of the Company or any Subsidiary Guarantor or by any officer of the Company or any Subsidiary Guarantor in this Agreement, any Subsidiary Guaranty or in any writing furnished in connection with the transactions contemplated hereby proves to have been false or incorrect in any material respect on the date as of which made; or

(f) (i) the Company or any Restricted Subsidiary is in default (as principal or as guarantor or other surety) in the payment of any principal of or premium or make-whole amount or interest on any Indebtedness that is outstanding in an aggregate principal amount of at least \$2,500,000 beyond any period of grace provided with respect thereto, or (ii) the Company or any Restricted Subsidiary is in default in the performance of or compliance with any term of any evidence of any Indebtedness in an aggregate outstanding principal amount of at least \$2,500,000 or of any mortgage, indenture or other agreement relating thereto or any other condition exists, and as a consequence of such default or condition such Indebtedness has become, or has been declared (or one or more Persons are entitled to declare such Indebtedness to be), due and payable before its stated maturity or before its regularly scheduled dates of payment, or (iii) as a consequence of the occurrence or continuation of any event or condition (other than the passage of time or the right of the holder of Indebtedness to convert such Indebtedness into equity interests), (x) the Company or any Restricted Subsidiary has become obligated to purchase or repay Indebtedness before its regular maturity or before its regularly scheduled dates of payment in an aggregate outstanding principal amount of at least \$2,500,000, or (y) one or more Persons have the right to require the Company or any Restricted Subsidiary so to purchase or repay such Indebtedness; or

(g) the Company or any Restricted Subsidiary (i) is generally not paying, or admits in writing its inability to pay, its debts as they become due, (ii) files, or consents by answer or otherwise to the filing against it of, a petition for relief or reorganization or arrangement or any other petition in bankruptcy, for liquidation or to take advantage of any bankruptcy, insolvency, reorganization, moratorium or other similar law of any jurisdiction, (iii) makes an assignment for the benefit of its creditors, (iv) consents to the appointment of a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, (v) is adjudicated as insolvent or to be liquidated, or (vi) takes corporate action for the purpose of any of the foregoing; or

(h) a court or governmental authority of competent jurisdiction enters an order appointing, without consent by the Company or any of its Restricted Subsidiaries, a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, or constituting an order for relief or approving a petition for relief or reorganization or any other petition in bankruptcy or for liquidation or to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding-up or liquidation of the Company or any of its Restricted Subsidiaries, or any such petition shall be filed against the Company or any of its Restricted Subsidiaries and such petition shall not be dismissed within 60 days; or

(i) a final judgment or judgments for the payment of money in excess of \$1,000,000 are rendered against one or more of the Company and its Restricted Subsidiaries and which judgments are not, within 30 days after entry thereof, bonded, discharged or stayed pending appeal or are not discharged within 60 days after the expiration of such stay or appeal; or

(j) a Change of Control shall occur and continue for more than 40 days or a default shall occur in giving notice of any Change of Control pursuant to the provisions of Section 7.1(h); or

(k) any Subsidiary Guaranty shall cease to be in full force and effect for any reason whatsoever (other than with the prior consent of the Required Holders), including, without limitation, a determination by a Governmental Authority of competent jurisdiction that either such guaranty is invalid, void or unenforceable or a Subsidiary Guarantor shall contest or deny in writing the validity or enforceability of any of its obligations under any Subsidiary Guaranty; or

(l) if (i) any Plan shall fail to satisfy the minimum funding standards of ERISA or the Code for any plan year or part thereof or a waiver of such standards or extension of any amortization period is sought or granted under Section 412 of the Code, (ii) a notice of intent to terminate any Plan shall have been or is reasonably expected to be filed with the PBGC or the PBGC shall have instituted proceedings under ERISA Section 4042 to terminate or appoint a trustee to administer any Plan or the PBGC shall have notified the Company or any ERISA Affiliate that a Plan may become a subject of any such proceedings, (iii) the aggregate "amount of unfunded benefit liabilities" (within the meaning of Section 4001(a)(18) of ERISA) under all Plans, determined in accordance with Title IV of ERISA, shall exceed \$5,000,000, (iv) the Company or any ERISA Affiliate shall have incurred or is reasonably expected to incur any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, (v) the Company or any ERISA Affiliate withdraws from any Multiemployer Plan, or (vi) the Company or any Subsidiary establishes or amends any employee welfare benefit plan that provides post-employment welfare benefits in a manner that would increase the liability of the Company or any Subsidiary thereunder; and any such event or events described in clauses (i) through (vi) above, either individually or together with any other such event or events, could reasonably be expected to have a Material Adverse Effect.

As used in Section 11(1), the terms "employee benefit plan" and "employee welfare benefit plan" shall have the respective meanings assigned to such terms in Section 3 of ERISA.

Section 12. Remedies on Default, Etc.

Section 12.1. Acceleration. (a) If an Event of Default with respect to the Company described in paragraph (g) or (h) of Section 11 (other than an Event of Default described in clause (i) of paragraph (g) or described in clause (vi) of paragraph (g) by virtue of the fact that such clause encompasses clause (i) of paragraph (g)) has occurred, all the Notes then outstanding shall automatically become immediately due and payable.

(b) If any Event of Default described in paragraph (a) of Section 11 has occurred and is continuing, any holder or holders of 25% or more in principal amount of the Notes at the time outstanding may, and if any other Event of Default has occurred and is continuing, the Required Holders may at any time at its or their option, by notice or notices to the Company, declare all the Notes then outstanding to be immediately due and payable.

(c) In addition to the collective remedies of the holders of the Notes in clause (b), if any Event of Default described in paragraph (a) or (b) of Section 11 has occurred and is continuing, any holder of Notes at the time outstanding affected by such Event of Default may at any time, at its option, by notice or notices to the Company, declare all the Notes held by it to be immediately due and payable.

Upon any Note's becoming due and payable under this Section 12.1, whether automatically or by declaration, such Note will forthwith mature and the entire unpaid principal amount of such Note, plus (x) all accrued and unpaid interest thereon and (y) the Make-Whole Amount determined in respect of such principal amount (to the full extent permitted by applicable law), shall all be immediately due and payable, in each and every case without presentment, demand, protest or further notice, all of which are hereby waived. The Company acknowledges, and the parties hereto agree, that each holder of a Note has the right to maintain its investment in the Notes free from repayment by the Company (except as herein specifically provided for), and that the provision for payment of a Make-Whole Amount by the Company in the event that the Notes are prepaid or are accelerated as a result of an Event of Default, is intended to provide compensation for the deprivation of such right under such circumstances.

Section 12.2. Other Remedies. If any Default or Event of Default has occurred and is continuing, and irrespective of whether any Notes have become or have been declared immediately due and payable under Section 12.1, the holder of any Note at the time outstanding may proceed to protect and enforce the rights of such holder by an action at law, suit in equity or other appropriate proceeding, whether for the specific performance of any agreement contained herein or in any Note, or for an injunction against a violation of any of the terms hereof or thereof, or in aid of the exercise of any power granted hereby or thereby or by law or otherwise.

Section 12.3. Rescission. At any time after any Notes have been declared due and payable pursuant to clause (b) or (c) of Section 12.1, the Required Holders then outstanding, by written notice to the Company, may rescind and annul any such declaration and its consequences

if (a) the Company has paid all overdue interest on the Notes, all principal of and Make-Whole Amount, if any, on any Notes that are due and payable and are unpaid other than by reason of such declaration, and all interest on such overdue principal and Make-Whole Amount, if any, and (to the extent permitted by applicable law) any overdue interest in respect of the Notes, at the Default Rate, (b) all Events of Default and Defaults, other than non-payment of amounts that have become due solely by reason of such declaration, have been cured or have been waived pursuant to Section 17, and (c) no judgment or decree has been entered for the payment of any monies due pursuant hereto or to the Notes. No rescission and annulment under this Section 12.3 will extend to or affect any subsequent Event of Default or Default or impair any right consequent thereon.

Section 12.4. No Waivers or Election of Remedies, Expenses, Etc. No course of dealing and no delay on the part of any holder of any Note in exercising any right, power or remedy shall operate as a waiver thereof or otherwise prejudice such holder's rights, powers or remedies. No right, power or remedy conferred by this Agreement or by any Note upon any holder thereof shall be exclusive of any other right, power or remedy referred to herein or therein or now or hereafter available at law, in equity, by statute or otherwise. Without limiting the obligations of the Company under Section 15, the Company will pay to the holder of each Note on demand such further amount as shall be sufficient to cover all costs and expenses of such holder incurred in any enforcement or collection under this Section 12, including, without limitation, reasonable attorneys' fees, expenses and disbursements.

Section 13. Registration; Exchange; Substitution of Notes.

Section 13.1. Registration of Notes. The Company shall keep at its principal executive office a register for the registration and registration of transfers of Notes. The name and address of each holder of one or more Notes, each transfer thereof and the name and address of each transferee of one or more Notes shall be registered in such register. Prior to due presentment for registration of transfer, the Person in whose name any Note shall be registered shall be deemed and treated as the owner and holder thereof for all purposes hereof, and the Company shall not be affected by any notice or knowledge to the contrary. The Company shall give to any holder of a Note that is an Institutional Investor promptly upon request therefor, a complete and correct copy of the names and addresses of all registered holders of Notes.

Section 13.2. Transfer and Exchange of Notes. Upon surrender of any Note at the principal executive office of the Company for registration of transfer or exchange (and in the case of a surrender for registration of transfer, duly endorsed or accompanied by a written instrument of transfer duly executed by the registered holder of such Note or its attorney duly authorized in writing and accompanied by the address for notices of each transferee of such Note or part thereof), the Company shall execute and deliver, at the Company's expense (except as provided below), one or more new Notes (as requested by the holder thereof) in exchange therefor, in an aggregate principal amount equal to the unpaid principal amount of the surrendered Note. Each such new Note shall be payable to such Person as such holder may request and shall be substantially in the form of Exhibit 1. Each such new Note shall be dated and bear interest from the date to which interest shall have been paid on the surrendered Note or dated the date of the surrendered Note if no interest shall have been paid thereon. The Company

may require payment of a sum sufficient to cover any stamp tax or governmental charge imposed in respect of any such transfer of Notes. Notes shall not be transferred in denominations of less than \$100,000, provided that if necessary to enable the registration of transfer by a holder of its entire holding of Notes, one Note may be in a denomination of less than \$100,000. Any transferee of a Note, or purchaser of a participation therein, shall, by its acceptance of such Note be deemed to make the same representations to the Company regarding the Note or participation as such Noteholder has made pursuant to Section 6.2, provided that such entity may (in reliance upon information provided by the Company, which shall not be unreasonably withheld) make a representation to the effect that the purchase by such entity of any Note will not constitute a non-exempt prohibited transaction under Section 406(a) of ERISA.

Section 13.3. Replacement of Notes. Upon receipt by the Company of evidence reasonably satisfactory to it of the ownership of and the loss, theft, destruction or mutilation of any Note (which evidence shall be, in the case of an Institutional Investor, notice from such Institutional Investor of such ownership and such loss, theft, destruction or mutilation), and

(a) in the case of loss, theft or destruction, of indemnity reasonably satisfactory to it (provided that if the holder of such Note is, or is a nominee for, an original Noteholder or another holder of a Note with a minimum net worth of at least \$15,000,000, such Person's own unsecured agreement of indemnity shall be deemed to be satisfactory), or

(b) in the case of mutilation, upon surrender and cancellation thereof,

the Company at its own expense shall execute and deliver, in lieu thereof, a new Note, dated and bearing interest from the date to which interest shall have been paid on such lost, stolen, destroyed or mutilated Note or dated the date of such lost, stolen, destroyed or mutilated Note if no interest shall have been paid thereon.

Section 14. Payments on Notes.

Section 14.1. Place of Payment. Subject to Section 14.2, payments of principal, Make-Whole Amount, if any, and interest becoming due and payable on the Notes shall be made in Northfield, Illinois, at the principal office of the Company in such jurisdiction. The Company may at any time, by notice to each holder of a Note, change the place of payment of the Notes so long as such place of payment shall be either the principal office of the Company in such jurisdiction or the principal office of a bank or trust company in such jurisdiction.

Section 14.2. Home Office Payment. So long as any Noteholder or such Noteholder's nominee shall be the holder of any Note, and notwithstanding anything contained in Section 14.1 or in such Note to the contrary, the Company will pay all sums becoming due on such Note for principal, Make-Whole Amount, if any, and interest by the method and at the address specified for such purpose below such Noteholder's signature at the foot of this Agreement, or by such other method or at such other address as such Noteholder shall have from time to time specified to the Company in writing for such purpose, without the presentation or surrender of such Note or the making of any notation thereon, except that upon written request of the Company made

concurrently with or reasonably promptly after payment or prepayment in full of any Note, such Noteholder shall surrender such Note for cancellation, reasonably promptly after any such request, to the Company at its principal executive office or at the place of payment most recently designated by the Company pursuant to Section 14.1. The Company will afford the benefits of this Section 14.2 to any Institutional Investor that is the direct or indirect transferee of any Note purchased by any Noteholder under this Agreement and that has made the same agreement relating to such Note as such Noteholder has made in this Section 14.2.

Section 15. Expenses, Etc.

Section 15.1. Transaction Expenses. Whether or not the transactions contemplated hereby are consummated, the Company will pay all costs and expenses (including reasonable attorneys' fees of a special counsel and, if reasonably required, local or other counsel) incurred by each Noteholder or holder of a Note in connection with such transactions and in connection with any amendments, waivers or consents under or in respect of this Agreement or the Notes (whether or not such amendment, waiver or consent becomes effective), including, without limitation: (a) the costs and expenses incurred in enforcing or defending (or determining whether or how to enforce or defend) any rights under this Agreement or the Notes or in responding to any subpoena or other legal process or informal investigative demand issued in connection with this Agreement or the Notes, or by reason of being a holder of any Note, and (b) the costs and expenses, including financial advisors' fees, incurred in connection with the insolvency or bankruptcy of the Company or any Subsidiary or in connection with any work-out or restructuring of the transactions contemplated hereby and by the Notes. The Company will pay, and will save each Noteholder and each other holder of a Note harmless from, all claims in respect of any fees, costs or expenses, if any, of brokers and finders (other than those retained by such Noteholder or holder).

Section 15.2. Survival. The obligations of the Company under this Section 15 will survive the payment or transfer of any Note, the enforcement, amendment or waiver of any provision of this Agreement or the Notes, and the termination of this Agreement.

Section 16. Survival of Representations and Warranties; Entire Agreement.

All representations and warranties contained herein shall survive the execution and delivery of this Agreement and the Notes, the purchase or transfer by any Noteholder of any Note or portion thereof or interest therein and the payment of any Note, and may be relied upon by any subsequent holder of a Note, regardless of any investigation made at any time by or on behalf of such Noteholder or any other holder of a Note. All statements contained in any certificate or other instrument delivered by or on behalf of the Company pursuant to this Agreement shall be deemed representations and warranties of the Company under this Agreement made as of the date given and qualified to the extent provided therein. Subject to the preceding sentence, this Agreement and the Notes embody the entire agreement and understanding between each Noteholder and the Company and supersede all prior agreements and understandings relating to the subject matter hereof.

Section 17. Amendment and Waiver.

Section 17.1. Requirements. This Agreement and the Notes may be amended, and the observance of any term hereof or of the Notes may be waived (either retroactively or prospectively), with (and only with) the written consent of the Company and the Required Holders, except that (a) no amendment or waiver of any of the provisions of Section 1, 2, 3, 4, 5, 6 or 21 hereof, or any defined term (as it is used therein), will be effective as to any Noteholder unless consented to by such Noteholder in writing, and (b) no such amendment or waiver may, without the written consent of the holder of each Note at the time outstanding affected thereby, (i) subject to the provisions of Section 12 relating to acceleration or rescission, change the amount or time of any prepayment or payment of principal of, or reduce the rate or change the time of payment or method of computation of interest or of the Make-Whole Amount on, the Notes, (ii) change the percentage of the principal amount of the Notes the holders of which are required to consent to any such amendment or waiver, (iii) amend any of Section 8, 11(a), 11(b), 12, 17 or 20 or (iv) give to any Note any preference over any other Note.

Section 17.2. Solicitation of Holders of Notes.

(a) Solicitation. The Company will provide each holder of the Notes (irrespective of the amount of Notes then owned by it) with sufficient information, sufficiently far in advance of the date a decision is required, to enable such holder to make an informed and considered decision with respect to any proposed amendment, waiver or consent in respect of any of the provisions hereof or of the Notes. The Company will deliver executed or true and correct copies of each amendment, waiver or consent effected pursuant to the provisions of this Section 17 to each holder of outstanding Notes promptly following the date on which it is executed and delivered by, or receives the consent or approval of, the requisite holders of Notes.

(b) Payment. The Company will not directly or indirectly pay or cause to be paid any remuneration, whether by way of supplemental or additional interest, fee or otherwise, or grant any security, to any holder of Notes as consideration for or as an inducement to the entering into by any holder of Notes of any waiver or amendment of any of the terms and provisions hereof or of the Notes unless such remuneration is concurrently paid, or security is concurrently granted, on the same terms, ratably to each holder of Notes then outstanding whether or not such holder consented to such waiver or amendment.

Section 17.3. Binding Effect, Etc. Any amendment or waiver consented to as provided in this Section 17 applies equally to all holders of Notes and is binding upon them and upon each future holder of any Note and upon the Company without regard to whether such Note has been marked to indicate such amendment or waiver. No such amendment or waiver will extend to or affect any obligation, covenant, agreement, Default or Event of Default not expressly amended or waived or impair any right consequent thereon. No course of dealing between the Company and the holder of any Note nor any delay in exercising any rights hereunder or under any Note shall operate as a waiver of any rights of any holder of such Note. As used herein, the term "this Agreement" and references thereto shall mean this Agreement as it may from time to time be amended or supplemented.

Section 17.4. Notes Held by Company, Etc. Solely for the purpose of determining whether the holders of the requisite percentage of the aggregate principal amount of Notes then outstanding approved or consented to any amendment, waiver or consent to be given under this Agreement or the Notes, or have directed the taking of any action provided herein or in the Notes to be taken upon the direction of the holders of a specified percentage of the aggregate principal amount of Notes then outstanding, Notes directly or indirectly owned by the Company or any of its Affiliates shall be deemed not to be outstanding.

Section 18. Notices.

All notices and communications provided for hereunder shall be in writing and sent (a) by telefacsimile if the sender on the same day sends a confirming copy of such notice by a recognized overnight delivery service (charges prepaid), or (b) by registered or certified mail with return receipt requested (postage prepaid), or (c) by a recognized overnight delivery service (with charges prepaid). Any such notice must be sent:

(i) if to a Noteholder or such Noteholder's nominee, to such Noteholder or such Noteholder's nominee at the address specified for such communications below such Noteholder's signature at the foot of this Agreement, or at such other address as such Noteholder or such Noteholder's nominee shall have specified to the Company in writing,

(ii) if to any other holder of any Note, to such holder at such address as such other holder shall have specified to the Company in writing, or

(iii) if to the Company, to the Company at its address set forth at the beginning hereof to the attention of Chief Financial Officer with a copy to the Company's General Counsel, or at such other address as the Company shall have specified to the holder of each Note in writing.

Notices under this Section 18 will be deemed given only when actually received.

Section 19. Reproduction of Documents.

This Agreement and all documents relating thereto, including, without limitation, (a) consents, waivers and modifications that may hereafter be executed, (b) documents received by each Noteholder on the Effective Date (except the Notes themselves), and (c) financial statements, certificates and other information previously or hereafter furnished to each Noteholder, may be reproduced by such Noteholder by any photographic, photostatic, microfilm, microcard, miniature photographic or other similar process and such Noteholder may destroy any original document so reproduced. The Company agrees and stipulates that, to the extent permitted by applicable law, any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made by such Noteholder in the regular course of business) and any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence. This Section 19 shall not prohibit the Company or any

other holder of Notes from contesting any such reproduction to the same extent that it could contest the original, or from introducing evidence to demonstrate the inaccuracy of any such reproduction.

Section 20. Confidential Information.

For the purposes of this Section 20, "Confidential Information" means information delivered to any Noteholder by or on behalf of the Company or any Subsidiary in connection with the transactions contemplated by or otherwise pursuant to this Agreement that is proprietary in nature and that was clearly marked or labeled or otherwise adequately identified when received by such Noteholder as being confidential information of the Company or such Subsidiary, provided that such term does not include information that (a) was publicly known or otherwise known to such Noteholder prior to the time of such disclosure, (b) subsequently becomes publicly known through no act or omission by such Noteholder or any Person acting on such Noteholder's behalf, (c) otherwise becomes known to such Noteholder other than through disclosure by the Company or any Subsidiary or (d) constitutes financial statements delivered to such Noteholder under Section 7.1 that are otherwise publicly available. Each Noteholder will maintain the confidentiality of such Confidential Information in accordance with procedures adopted by such Noteholder in good faith to protect confidential information of third parties delivered to such Noteholder, provided that such Noteholder may deliver or disclose Confidential Information to (i) such Noteholder's directors, trustees, officers, employees, agents, attorneys and affiliates (to the extent such disclosure reasonably relates to the administration of the investment represented by such Noteholder's Notes), (ii) such Noteholder's financial advisors and other professional advisors who agree to hold confidential the Confidential Information substantially in accordance with the terms of this Section 20, (iii) any other holder of any Note, (iv) any Institutional Investor to which such Noteholder sells or offers to sell such Note or any part thereof or any participation therein (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 20), (v) any Person from which such Noteholder offers to purchase any security of the Company (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 20), (vi) any federal or state regulatory authority having jurisdiction over such Noteholder, (vii) the National Association of Insurance Commissioners or any similar organization, or any nationally recognized rating agency that requires access to information about such Noteholder's investment portfolio, or (viii) any other Person to which such delivery or disclosure may be necessary or appropriate (w) to effect compliance with any law, rule, regulation or order applicable to such Noteholder, (x) in response to any subpoena or other legal process, (y) in connection with any litigation to which such Noteholder is a party or (z) if an Event of Default has occurred and is continuing, to the extent such Noteholder may reasonably determine such delivery and disclosure to be necessary or appropriate in the enforcement or for the protection of the rights and remedies under such Noteholder's Notes and this Agreement. Each holder of a Note, by its acceptance of a Note, will be deemed to have agreed to be bound by and to be entitled to the benefits of this Section 20 as though it were a party to this Agreement. On reasonable request by the Company in connection with the delivery to any holder of a Note of information required to be delivered to such holder under this Agreement or requested by such holder (other than a holder that is a party to this Agreement or

its nominee or any other holder that shall have previously delivered such a confirmation), such holder will confirm in writing that it is bound by the provisions of this Section 20.

Section 21. Substitution of Noteholder.

Each Noteholder shall have the right to substitute any one of such Noteholder's Affiliates as the purchaser of the Notes that such Noteholder has agreed to purchase hereunder, by written notice to the Company, which notice shall be signed by both such Noteholder and such Noteholder's Affiliate, shall contain such Affiliate's agreement to be bound by this Agreement and shall contain a confirmation by such Affiliate of the accuracy with respect to it of the representations set forth in Section 6. Upon receipt of such notice, wherever the word "Noteholder" is used in this Agreement (other than in this Section 21), such word shall be deemed to refer to such Affiliate in lieu of such Noteholder. In the event that such Affiliate is so substituted as a purchaser hereunder and such Affiliate thereafter transfers to such Noteholder all of the Notes then held by such Affiliate, upon receipt by the Company of notice of such transfer, wherever the word "Noteholder" is used in this Agreement (other than in this Section 21), such word shall no longer be deemed to refer to such Affiliate, but shall refer to such Noteholder, and such Noteholder shall have all the rights of an original holder of the Notes under this Agreement.

Section 22. Miscellaneous.

Section 22.1. Successors and Assigns. All covenants and other agreements contained in this Agreement by or on behalf of any of the parties hereto bind and inure to the benefit of their respective successors and assigns (including, without limitation, any subsequent holder of a Note) whether so expressed or not. The Company may not assign any of its rights hereunder without the written consent of the holders of the Notes.

Section 22.2. Payments Due on Non-Business Days. Anything in this Agreement or the Notes to the contrary notwithstanding, any payment of principal of or Make-Whole Amount or interest on any Note that is due on a date other than a Business Day shall be made on the next succeeding Business Day without including the additional days elapsed in the computation of the interest payable on such next succeeding Business Day.

Section 22.3. Severability. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall (to the full extent permitted by law) not invalidate or render unenforceable such provision in any other jurisdiction.

Section 22.4. Construction. Each covenant contained herein shall be construed (absent express provision to the contrary) as being independent of each other covenant contained herein, so that compliance with any one covenant shall not (absent such an express contrary provision) be deemed to excuse compliance with any other covenant. Where any provision herein refers to action to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such Person.

Section 22.5. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies hereof, each signed by fewer than all, but together signed by all, of the parties hereto.

Section 22.6. Governing Law. This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of Illinois excluding choice-of-law principles of the law of such State that would require the application of the laws of a jurisdiction other than such State.

* * * * *

The execution hereof by the Noteholders shall constitute a contract among the Company and the Noteholders for the uses and purposes hereinabove set forth.

Very truly yours,

Stepan Company

By

Name:

Title:

The foregoing is hereby agreed to as of the date thereof.

The Northwestern Mutual Life Insurance Company

By

Name:

Its Authorized Representative

Principal Amount of Notes
to Be Exchanged

The Northwestern Mutual Life
Insurance Company
720 East Wisconsin Avenue
Milwaukee, Wisconsin 53202
Attention: Securities Department
Telecopier Number: (414) 665-7124

\$667,000

Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as "Stepan Company, 9.70% Amended and Restated Senior Notes due April 1, 2006, PPN 858586 E#3, principal, premium or interest") to:

Bankers Trust Company
ABA #021-001-033
16 Wall Street
Insurance Unit, 4th Floor
New York, New York 10005

for credit to: The Northwestern Mutual Life Insurance Company
Account Number 00-000-027

Notices

All notices and communications to be addressed as first provided above, except notices with respect to payments and written confirmation of each such payment to be addressed, Attention: Investment Operations, Fax Number: (414) 625-6998.

Name of Nominee in which Notes are to be issued: None

Taxpayer I.D. Number: 39-0509570

Schedule A
(to Amended and Restated Note Agreement)

DEFINED TERMS

Where the character or amount of any asset or liability or item of income or expense is required to be determined or any consolidation or other accounting computation is required to be made for the purposes of this Agreement, the same shall be done in accordance with GAAP, to the extent applicable, except where such principles are inconsistent with the express requirements of this Agreement.

Where any provision in this Agreement refers to action to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether the action in question is taken directly or indirectly by such Person.

As used herein, the following terms have the respective meanings set forth below or set forth in the Section hereof following such term:

"Affiliate" means, at any time, and with respect to any Person, (a) any other Person that at such time directly or indirectly through one or more intermediaries Controls, or is Controlled by, or is under common Control with, such first Person, and (b) any Person beneficially owning or holding, directly or indirectly, 10% or more of any class of voting or equity interests of the Company or any Subsidiary or any corporation of which the Company and its Subsidiaries beneficially own or hold, in the aggregate, directly or indirectly, 10% or more of any class of voting or equity interests. As used in this definition, "Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. Unless the context otherwise clearly requires, any reference to an "Affiliate" is a reference to an Affiliate of the Company.

"Assets" of any corporation means, at any date, the gross book value as shown by the books of such corporation in accordance with GAAP of all its property, whether real, personal or mixed (exclusive of franchises, licenses, permits, patents, patent applications, copyrights, trademarks, trade names, good will, experimental or organizational expense, leasehold improvements not recoverable at the expiration of a lease, unamortized debt discount and expense, deferred charges and other intangibles and treasury stock), less the sum (without duplication) of (a) all reserves for depreciation, depletion, obsolescence and amortization of its properties (other than properties excluded as hereinabove provided) as shown by the books of such corporation and all other proper reserves which in accordance with GAAP should be set aside in connection with the business conducted by such corporation, other than reserves for contingencies not allocated to any particular purpose; and (b) the amount of any write-up subsequent to December 31, 1986 in the book value of any asset owned by such corporation on such date resulting from the revaluation thereof subsequent to such date, or any write-up in excess of the cost of any asset acquired by such corporation subsequent to such date.

"Business Day" means (a) for the purposes of Section 8.7 only, any day other than a Saturday, a Sunday or a day on which commercial banks in New York City are required or authorized to be closed, and (b) for the purposes of any other provision of this Agreement, any

Schedule B
(to Amended and Restated Note Agreement)

day other than a Saturday, a Sunday or a day on which commercial banks in Chicago, Illinois, or New York, New York are required or authorized to be closed.

"Capitalized Lease" means any lease which, in accordance with GAAP, is of such a nature that payment obligations of the lessee thereunder shall have been or should be capitalized and shown as liabilities (other than current Indebtedness) upon the balance sheet of such lessee.

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

"Code" means the Internal Revenue Code of 1986, as amended from time to time, and the rules and regulations promulgated thereunder from time to time.

"Company" means Stepan Company, a Delaware corporation.

"Confidential Information" is defined in Section 20.

"Consolidated," when used in respect of the Assets, Current Indebtedness and Funded Indebtedness of the Company and its Restricted Subsidiaries means the aggregate of the assets, Current Assets, Current Indebtedness, Funded Indebtedness, respectively, of the Company and its Restricted Subsidiaries, after eliminating all intercompany items and all other items which should be eliminated in accordance with GAAP; provided, however, in determining Consolidated Assets, there shall not be included therein any amount on account of the excess of (i) the cost of acquisition of shares of any Subsidiary over the book value of the assets of such Subsidiary attributable to such shares on the books of such Subsidiary at the date of acquisition of such shares, or (ii) the book value of the assets of such Subsidiary attributable to such shares at the date of such acquisition over the cost of acquisition of such shares; provided, further, in determining Consolidated Funded Indebtedness, there shall not be included therein any duplication of Indebtedness that may arise from the guaranty by a Restricted Subsidiary of Indebtedness of the Company which constitutes Specified Subsidiary Indebtedness.

"Consolidated Capitalization" means the sum of (i) Consolidated Funded Indebtedness of the Company and its Restricted Subsidiaries, plus (ii) Consolidated Tangible Net Worth.

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

"Consolidated Net Income" means the aggregate of the net income of the Company and its Restricted Subsidiaries, after eliminating all intercompany items and portions of income properly attributable to minority interest in the stock of such Subsidiaries, all computed in accordance with GAAP.

"Consolidated Tangible Net Worth" means the aggregate of the Tangible Net Worth of the Company and its Restricted Subsidiaries, consolidated in accordance with GAAP.

"corporation" shall include corporations, joint stock companies and business trusts.

"Current Indebtedness" means all Indebtedness other than Funded Indebtedness, and, without limitation, shall include (a) all Indebtedness maturing on demand or within one year after the date as of which such determination is made, (b) final maturities and prepayments of Indebtedness and sinking fund payments (including, with respect to the Notes, not only (i) fixed prepayments, but also (ii) other prepayments on and after the date of notice of prepayment thereof pursuant to Sections 8.2 and 8.3) required to be made in respect of any Indebtedness within one year after said date, and (c) all other items (including taxes accrued as estimated) which in accordance with GAAP would be included as current liabilities.

"Default" means an event or condition the occurrence or existence of which would, with the lapse of time or the giving of notice or both, become an Event of Default.

"Default Rate" means that rate of interest that is the greater of (i) 2.00% per annum above the rate of interest stated in clause (a) of the first paragraph of the Notes or (ii) the rate of interest publicly announced by Bank One, N.A. in Chicago, Illinois as its "base" or "prime" rate.

"Definitive Agreement" means any binding, definitive written agreement with respect to any proposed transaction, event or series of transactions or events which, when fully performed, is reasonably likely to result in a Change of Control, excluding in all cases, letters of intent, proposals or similar non-definitive expressions of interest.

"Dilution" means (a) any decrease in the percentage of capital stock and other equity securities of a Restricted Subsidiary beneficially owned, directly or indirectly, by the Company and its Wholly-Owned Subsidiaries resulting from a sale, assignment, transfer or other disposition of capital stock or equity securities of a Restricted Subsidiary or (b) any increase in the minority interests in the capital stock and equity securities of a Restricted Subsidiary as a result of the issuance of capital stock and equity securities by a Restricted Subsidiary to a Person other than the Company or a Wholly-Owned Restricted Subsidiary. For purposes of determining compliance with Section 10.8, the value of any "Dilution" shall be an amount equal to the fair value of that portion of the assets of the relevant Subsidiary determined by multiplying the percentage of the capital stock and other equity securities of such Subsidiary constituting a Dilution by the fair value of all assets of such Subsidiary (assuming, in making such calculations, that all securities convertible into capital stock are so converted and giving full effect to all transactions that would occur or be required in connection with such conversion), determined at the time of the Dilution in good faith by the Company and subject to the approval of the Required Holders (which shall not be unreasonably withheld or delayed).

"Effective Date" is defined in Section 3.1.

"Environmental Laws" means any and all applicable Federal, state, local, and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions,

grants, franchises, licenses, agreements or governmental restrictions relating to public health, safety or the environment, including, without limitation, relating to releases, discharges, emissions or disposals to air, water, land or ground water, to the withdrawal or use of ground water, to the use, handling or disposal of polychlorinated biphenyls (PCB's), asbestos or urea formaldehyde, to the treatment, storage, disposal or management of hazardous substances (including, without limitation, petroleum, its derivatives, by-products or other hydrocarbons), to exposure to toxic, hazardous or other controlled, prohibited or regulated substances, or to the transportation, storage, disposal, management or release of gases or liquid substances.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

"ERISA Affiliate" means any trade or business (whether or not incorporated) that is treated as a single employer together with the Company under Section 414 of the Code.

"Event of Default" is defined in Section 11.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Fixed Payment Date" is defined in Section 8.1.

"Funded Indebtedness" means all Indebtedness (including capitalized payment obligations under Capitalized Leases) which by its terms matures more than one year from the date as of which any calculation of Funded Indebtedness is made. Funded Indebtedness shall also include the amount by which vested benefits under employee pension benefit plans exceeds the value of assets of such plans allocable to such vested benefit, if any.

"GAAP" means generally accepted accounting principles as in effect from time to time in the United States of America.

"Governmental Authority" means

(a) the government of

(i) the United States of America or any State or other political subdivision thereof, or

(ii) any jurisdiction in which the Company or any Subsidiary conducts all or any part of its business, or which asserts jurisdiction over any properties of the Company or any Subsidiary, or

(b) any entity exercising executive, legislative, judicial, regulatory or administrative functions of, or pertaining to, any such government.

"Guaranty" means, with respect to any Person, any obligation (except the endorsement in the ordinary course of business of negotiable instruments for deposit or collection) of such Person guaranteeing or in effect guaranteeing any indebtedness, dividend or other obligation of any other Person in any manner, whether directly or indirectly, including (without limitation) obligations incurred through an agreement, contingent or otherwise, by such Person:

(a) to purchase such indebtedness or obligation or any property constituting security therefor;

(b) to advance or supply funds (i) for the purchase or payment of such indebtedness or obligation, or (ii) to maintain any working capital or other balance sheet condition or any income statement condition of any other Person or otherwise to advance or make available funds for the purchase or payment of such indebtedness or obligation;

(c) to lease properties or to purchase properties or services primarily for the purpose of assuring the owner of such indebtedness or obligation of the ability of any other Person to make payment of the indebtedness or obligation; or

(d) otherwise to assure the owner of such indebtedness or obligation against loss in respect thereof.

In any computation of the indebtedness or other liabilities of the obligor under any Guaranty, the indebtedness or other obligations that are the subject of such Guaranty shall be assumed to be direct obligations of such obligor.

"Hazardous Material" means any and all pollutants, toxic or hazardous wastes or any other substances that might pose a hazard to health or safety, the removal of which may be required or the generation, manufacture, refining, production, processing, treatment, storage, handling, transportation, transfer, use, disposal, release, discharge, spillage, seepage, or filtration of which is or shall be restricted, prohibited or penalized by any applicable law (including, without limitation, asbestos, urea formaldehyde foam insulation and polychlorinated biphenyls).

"holder" means, with respect to any Note, the Person in whose name such Note is registered in the register maintained by the Company pursuant to Section 13.1.

"Indebtedness" with respect to any Person means, at any time, without duplication,

(a) its liabilities for borrowed money and its redemption obligations in respect of mandatorily redeemable preferred stock;

(b) its liabilities for the deferred purchase price of property acquired by such Person (excluding accounts payable arising in the ordinary course of business but including all liabilities created or arising under any conditional sale or other title retention agreement with respect to any such property);

(c) all liabilities appearing on its balance sheet in accordance with GAAP in respect of Capitalized Leases;

(d) all liabilities for borrowed money secured by any Lien with respect to any property owned by such Person (whether or not it has assumed or otherwise become liable for such liabilities);

(e) all its liabilities in respect of letters of credit or instruments serving a similar function issued or accepted for its account by banks and other financial institutions (whether or not representing obligations for borrowed money);

(f) Swaps of such Person; and

(g) any Guaranty of such Person with respect to liabilities of a type described in any of clauses (a) through (f) hereof.

Indebtedness of any Person shall include all obligations of such Person of the character described in clauses (a) through (g) to the extent such Person remains legally liable in respect thereof notwithstanding that any such obligation is deemed to be extinguished under GAAP.

"Institutional Investor" means (a) any original purchaser of a Note, (b) any holder of a Note holding more than 5% of the aggregate principal amount of the Notes then outstanding, and (c) any bank, trust company, savings and loan association or other financial institution, any pension plan, any investment company, any insurance company, any broker or dealer, or any other similar financial institution or entity, regardless of legal form.

"Interest Expense" means with respect to any period for which the amount thereof is to be determined, an amount equal to interest expense on Indebtedness, including payments in the nature of interest under Capitalized Lease Obligations and the discount or implied interest component of Off-Balance Sheet Liabilities, as determined in accordance with GAAP. Interest Expense determined on a consolidated basis for the Company and its Restricted Subsidiaries will be referred to herein as "Consolidated Interest Expense."

"Investment" shall include any Investment, in cash or by the delivery of other property (except against receipt of the fair value thereof in cash or in the ordinary course of business), whether by acquisition of stock, securities or other Indebtedness, or by loan, advance, capital contribution, transfer of property or otherwise; provided, however, that (a) the acquisition of stock, securities or other Indebtedness of, or a loan, advance capital contribution or transfer of property to, a Restricted Subsidiary (or a corporation which by reason of such transaction will become a Restricted Subsidiary) by the Company or one of its Restricted Subsidiaries, or (b) the purchase, acquisition or ownership by the Company or a Restricted Subsidiary of (i) readily marketable securities issued by states or municipalities within the United States of America or agencies or subdivisions thereof rated "A" or better by any recognized rating agency, (ii) direct obligations of, or obligations unconditionally guaranteed by, the United States of America or any agency thereof, (iii) commercial paper maturing within not more than 270 days from the date of issuance thereof which is issued by any corporation organized and doing business under the laws

of the United States of America or any state thereof and which is rated "Prime 1" by Moody's Investors Service, Inc. or "A-1" by Standard and Poor's Corporation (or comparably rated by such organizations or any successors thereto if the rating system is changed or there are such successors), (iv) certificates of deposit issued by any commercial bank organized and doing business under the laws of the United States of America or any state thereof and having (x) capital, surplus and undivided profits aggregating more than \$50,000,000, and (y) outstanding commercial paper which, at the time of acquisition of such certificates of deposit by the Company or any Restricted Subsidiary is rated "Prime 1" by Moody's Investors Service, Inc. or "A-1" by Standard and Poor's Corporation (or comparably rated by such organizations or any successors thereto if the rating system is changed or there are any successors), and (v) trade accounts payable to the Company or a Restricted Subsidiary within six months from the date such liability arose, shall not be deemed an "Investment." In addition, Investments of the Company existing on the Effective Date and described on Schedule 10.5 hereto, shall not be deemed "Investments."

"Lien" means, with respect to any Person, any mortgage, lien, pledge, charge, security interest or other encumbrance, or any interest or title of any vendor, lessor, lender or other secured party to or of such Person under any conditional sale or other title retention agreement or Capital Lease, upon or with respect to any property or asset of such Person (including in the case of stock, stockholder agreements, voting trust agreements and all similar arrangements).

"Make-Whole Amount" is defined in Section 8.7.

"Material" means material in relation to the business, operations, affairs, financial condition, assets, properties, or prospects of the Company and its Subsidiaries taken as a whole.

"Material Adverse Effect" means a material adverse effect on (a) the business, operations, affairs, financial condition, assets or properties of the Company and its Subsidiaries taken as a whole, or (b) the ability of the Company to perform its obligations under this Agreement and the Notes, or (c) the validity or enforceability of this Agreement, the Notes or any Subsidiary Guaranty.

"Multiemployer Plan" means any Plan that is a "multiemployer plan" (as such term is defined in Section 4001(a)(3) of ERISA).

"Net Income" of any corporation for any fiscal period shall mean the net income (or the net deficit, if expenses and charges exceed revenues and other proper income credits) of such corporation for such period, determined in the following manner:

(a) the gross revenues and other proper income credits of such corporation shall be computed for such period in accordance with GAAP; provided that in any event there shall not be included in such gross revenues and income credits any write up in the book value of any asset resulting from the revaluation thereof; and

(b) from the amount of such gross revenues and other proper income credits for such period determined as provided in the preceding clause (a), there shall be

deducted an amount equal to the aggregate of all expenses and other proper income charges for such period, determined in accordance with GAAP but in any event deducting (without in any respect limiting the generality of the foregoing) the following items: (i) all interest charges; (ii) amortization of debt discount and expense and any other amortization of deferred charges properly subject to amortization; (iii) provision for all taxes whether in respect of property, income, excess profits or otherwise; (iv) provisions for all contingency and other reserves whether general or special; and (v) provision for depreciation, depletion, obsolescence and amortization of the properties of such corporation (including depreciation and amortization of leasehold improvements) in amounts not less than the aggregate amount actually deducted on its books and not less than the aggregate amount claimed (but adjusted for any disallowance) or to be claimed by such corporation for federal income tax purposes for such period; provided, however, that in lieu of accelerated depreciation permitted under the Code, the corporation may at its option provide for depreciation and amortization in amounts based on the normal rates customarily employed by the corporation for identical or similar types of property in the preparation of its audited financial statements, and in such event the corporation shall establish and shall maintain in accordance with GAAP an appropriate reserve in respect of any tax savings as a result of charging for tax purposes such accelerated depreciation or accelerated amortization;

provided that, in determining the amount to be included in clauses (a) and (b) above, (i) any federal tax adjustments for any period prior to January 1, 2002 shall not be a proper charge or credit to income for any period subsequent to that date, and any federal tax adjustment for any period subsequent to December 31, 2001 shall be included as a proper charge or credit to income for the year in which actually received or paid, except to the extent, if any, to which the amount of such latter adjustment is charged to a proper reserve for federal taxes set up out of income for any period subsequent to December 31, 2001; (ii) any adjustments for any period prior to January 1, 2002 resulting from any renegotiation or price redetermination in respect of any Government prime contract, or any subcontract under any Government prime contract, shall not be included as a proper charge or credit to income for any period subsequent to that date, and any such renegotiation or price redetermination adjustment for any period subsequent to December 31, 2001 shall be included as a proper charge or credit to income for the year in which actually received or paid, except to the extent, if any, to which the amount of such adjustment is charged to a proper reserve for renegotiation or price redetermination set up out of income for any period subsequent to December 31, 2001; (iii) any earnings of, and dividends payable to, such corporation in currencies which at the time are blocked against conversion into United States currency shall not be included as a proper charge or credit to income for any period subsequent to December 31, 2001; (iv) any undistributed earnings of, and dividends payable by, unconsolidated Subsidiaries or any other person (other than a Restricted Subsidiary) shall not be included as a proper charge or credit to income for any period subsequent to December 31, 2001; (v) any gains on the sale or other disposition of capital assets and taxes on such excluded gains shall not be included as a proper charge or credit to income for any period subsequent to December 31, 2001; (vi) net earnings and losses of any corporation (other than a Subsidiary) substantially all the assets of which have been acquired in any manner, realized by such other corporation prior to the date of acquisition shall not be included as a proper charge or credit to income for any period subsequent to December 31, 2001; (vii) net earnings or losses of any

corporation (other than a Restricted Subsidiary) with which the Company or a Restricted Subsidiary shall have consolidated or which shall have merged into or with the Company or a Restricted Subsidiary prior to the date of such consolidation or merger shall not be included as a proper charge or credit to income for any period subsequent to December 31, 2001; and (viii) any portion of the net earnings of any Restricted Subsidiary which for any reason is unavailable for the payment of dividends to the Company or any other Restricted Subsidiary shall not be included as a proper credit to income for any period subsequent to December 31, 2001. The term "capital assets" of any corporation as used herein shall include all fixed assets, both tangible (such as land, buildings, machinery and equipment) and intangible (such as patents, copyrights, trademarks, trade names, formulae and good will), and securities.

"Notes" is defined in Section 1.

"Off-Balance Sheet Liability" of a Person means (i) any repurchase obligation or liability of such Person or any of its Subsidiaries with respect to accounts or notes receivable sold by such Person or any of its Subsidiaries (calculated to include the unrecovered investment of purchasers or transferees of accounts or any other obligation of such Person or such transferor to purchasers/transferees of interests in accounts or notes receivable or the agent for such purchasers/transferees), (ii) any liability under any sale and leaseback transaction which is not a Capitalized Lease, (iii) any liability under any financing lease or Synthetic Lease or "tax ownership operating lease" transaction entered into by such Person, including any Synthetic Lease Obligations, or (iv) any obligation arising with respect to any other transaction which is the functional equivalent of or takes the place of borrowing but which does not constitute a liability on the balance sheets of such Person, but excluding from this clause (iv) Operating Leases.

"Officer's Certificate" means a certificate of a Senior Financial Officer or of any other officer of the Company whose responsibilities extend to the subject matter of such certificate.

"Operating Lease" of a Person means any lease of Property (other than a Capitalized Lease) by such Person as lessee which has an original term (including any required renewals and any renewals effective at the option of the lessor) of one year or more.

"PBGC" means the Pension Benefit Guaranty Corporation referred to and defined in ERISA or any successor thereto.

"Permitted Guaranties" means and includes each unsecured Guaranty by a Subsidiary of the Company's obligations under (a) the Revolving Credit Agreement and (b) the Company's then outstanding private placement note purchase agreements, provided that the Indebtedness of such Subsidiary under each such Guaranty qualifies as Specified Subsidiary Indebtedness.

"Person" means an individual, partnership, corporation, limited liability company, association, trust, unincorporated organization, or a government or agency or political subdivision thereof.

"Plan" means an "employee benefit plan" (as defined in Section 3(3) of ERISA) that is or, within the preceding five years, has been established or maintained, or to which contributions are or, within the preceding five years, have been made or required to be made, by the Company or any ERISA Affiliate or with respect to which the Company or any ERISA Affiliate may have any liability.

"property" or "properties" means, unless otherwise specifically limited, real or personal property of any kind, tangible or intangible, choate or inchoate.

"QPAM Exemption" means Prohibited Transaction Class Exemption 84-14 issued by the United States Department of Labor.

"Required Holders" means, at any time, the holders of at least 51% in principal amount of the Notes at the time outstanding (exclusive of Notes then owned by the Company or any of its Affiliates).

"Responsible Officer" means any Senior Financial Officer and any other officer of the Company with responsibility for the administration of the relevant portion of this Agreement.

"Restricted Subsidiary" means any Subsidiary of the Company which (a) is organized under the laws of any state of the United States of America or under the laws of Canada or any province thereof, (b) has substantially all of its assets located within, and operates substantially within, the United States of America or Canada, (c) at least 50% of the outstanding voting stock having ordinary voting power to elect a majority of the Board of Directors of such corporation (irrespective of whether or not at the time stock of any other class or classes shall have or might have voting power by reason of the happening of any contingency) is at the time directly or indirectly owned by the Company, by one or more of its Wholly-Owned Restricted Subsidiaries or by the Company and one or more of its Wholly-Owned Restricted Subsidiaries, and (d) which the Company designates as a Restricted Subsidiary, by notice to the holders of the Notes in the manner provided in Section 18; provided, however, that the Company may not designate any Unrestricted Subsidiary as a Restricted Subsidiary, or any Restricted Subsidiary as an Unrestricted Subsidiary, unless at the time of such designation, and after giving effect thereto, no Default or event which the passage of time or giving of notice, or both, would constitute an Event of Default would exist; and provided further that the Company may not subsequently change the designation of any Subsidiary from Restricted Subsidiary to Unrestricted Subsidiary, or from Unrestricted Subsidiary to Restricted Subsidiary, unless (w) the Company shall have given not less than 10 days' prior notice to the holders of the Notes that a Responsible Officer has made such a determination, (x) at the time of such designation and, on a pro forma basis, treating such designation as having occurred on the last day of the immediately preceding fiscal quarter, no Default or event which the passage of time or giving of notice, or both, would constitute an Event of Default would exist, (y) any designation of a Restricted Subsidiary to an Unrestricted Subsidiary is treated as a sale of assets subject to the provisions of Section 10.8 and immediately after such designation and after giving effect thereto, no Default or Event of Default shall have occurred and be continuing under Section 10.8 and (z)(i) a Subsidiary initially designated a Restricted Subsidiary shall not subsequently be designated an Unrestricted Subsidiary more than once or subsequently be designated a Restricted Subsidiary more than once

and (ii) a Subsidiary initially designated an Unrestricted Subsidiary shall not subsequently be designated a Restricted Subsidiary more than once or subsequently be designated an Unrestricted Subsidiary more than once. For all purposes of this Agreement, the Company shall, on Schedule 5.4, designate each Subsidiary which exists as of the Effective Date as an Unrestricted Subsidiary.

"Revolving Credit Agreement" means that certain Revolving Credit Agreement dated as of May 3, 2002 among the Company, Bank One, N.A., as Agent and the other financial institutions named therein, such term to include any credit facility or other instrument evidencing borrowed money replacing all or part of such Revolving Credit Agreement.

"Securities Act" means the Securities Act of 1933, as amended from time to time.

"Senior Financial Officer" means the chief financial officer, principal accounting officer, treasurer or comptroller of the Company.

"Specified Subsidiary Indebtedness" means Indebtedness of Subsidiaries consisting of unsecured Guaranties of the Company's obligations under and pursuant to (a) the Revolving Credit Agreement and (b) each of the Company's then outstanding private placement note purchase agreements and notes, provided that, within the time period required by Section 9.8 of this Agreement, the Company shall have executed and delivered, or shall have caused to be executed and delivered, to the holders of the Notes (i) an executed counterpart of a Subsidiary Guaranty or joinder agreement in respect of an existing Subsidiary Guaranty, from each of the Subsidiaries guaranteeing the Company's obligations under such Revolving Credit Agreement, and (ii) an executed counterpart of an intercreditor agreement among the holders of the Notes, each Person which is a party to the Revolving Credit Agreement as a lender or creditor (or an authorized agent on their behalf), each holder of the Company's other private placement notes then outstanding, the Company and each such guaranteeing Subsidiary, all as and to the extent required by Section 9.8 of this Agreement.

"Subsidiary" means, as to any Person, any corporation, association or other business entity in which such Person or one or more of its Subsidiaries or such Person and one or more of its Subsidiaries owns sufficient equity or voting interests to enable it or them (as a group) ordinarily, in the absence of contingencies, to elect a majority of the directors (or Persons performing similar functions) of such entity, and any partnership or joint venture if more than a 50% interest in the profits or capital thereof is owned by such Person or one or more of its Subsidiaries or such Person and one or more of its Subsidiaries (unless such partnership can and does ordinarily take major business actions without the prior approval of such Person or one or more of its Subsidiaries). Unless the context otherwise clearly requires, any reference to a "Subsidiary" is a reference to a Subsidiary of the Company.

"Subsidiary Guarantors" is defined in Section 9.8.

"Subsidiary Guaranty" means any Guaranty of any Subsidiary with respect to the payment of the Notes and all other sums due and owing by the Company under this Agreement, which Guaranty shall be in form and substance reasonably satisfactory to the Required Holders.

"Substantially-Owned Restricted Subsidiary" means any Restricted Subsidiary 90% or more of the equity interests (other than directors' qualifying shares) and voting interests at the time are owned directly or indirectly by the Company, or by one or more of its Substantially-Owned Restricted Subsidiaries or by the Company and one or more of its Substantially-Owned Restricted Subsidiaries.

"substantial part" is defined in Section 10.8.

"Swaps" means, with respect to any Person, payment obligations with respect to interest rate swaps, currency swaps and similar obligations obligating such Person to make payments, whether periodically or upon the happening of a contingency. For the purposes of this Agreement, the amount of the obligation under any Swap shall be the amount determined in respect thereof as of the end of the then most recently ended fiscal quarter of such Person, based on the assumption that such Swap had terminated at the end of such fiscal quarter, and in making such determination, if any agreement relating to such Swap provides for the netting of amounts payable by and to such Person thereunder or if any such agreement provides for the simultaneous payment of amounts by and to such Person, then in each such case, the amount of such obligation shall be the net amount so determined.

"Synthetic Lease" means each so-called synthetic, off-balance sheet or tax retention lease or other arrangement, however described, under which (a) the obligor accounts for its interest in the property covered thereby under GAAP as lessee of a lease which is not a capital lease and accounts for its interest in the property covered thereby for Federal income tax purposes as the owner or (b) the obligations of the obligor do not appear on the balance sheet of such obligor but which, upon the insolvency or bankruptcy of such obligor, would be characterized as the indebtedness of such obligor (without regard to accounting treatment).

"Synthetic Lease Obligation" means the monetary obligation of a Person under a Synthetic Lease.

"Tangible Net Worth" of any corporation shall mean the sum of the amounts set forth on the balance sheet of such corporation, prepared in accordance with GAAP and as of any date selected by such corporation not more than 45 days prior to the taking of any action for the purpose of which the determination is being made, which appears as (a) the par or stated value of all outstanding stock, (b) capital, paid-in and earned surplus and (c) long term deferred tax liabilities, less the sum of (i) any surplus resulting from any write-up of assets, (ii) good will, including any amounts (however designated on such balance sheet) representing the cost of acquisitions of Restricted Subsidiaries in excess of underlying tangible assets, unless an appraisal of such assets made by a reputable firm of appraisers at the time of acquisition shall indicate sufficient value to cover such excess, (iii) any amounts by which Investments in persons appearing on the asset side of such balance sheet exceed the lesser of cost or the proportionate share of such corporation in the book value of the assets of such persons, provided that such book value shall be reduced by any amounts representing restrictions on the payment of dividends by such persons pursuant to any law, charter provision, mortgage or indenture or, in lieu of the foregoing, any Investment may be carried at its market value if the securities representing such Investment are publicly traded, (iv) patents, trademarks, copyrights, leasehold improvements not

recoverable at the expiration of a lease and deferred charges (including, but not limited to, unamortized debt discount and expense, organization expenses, experimental and development expenses, but excluding prepaid expenses), (v) any amounts at which shares of capital stock of such corporation appear on the asset side of such balance sheet, (vi) any amount of Indebtedness not included on the liability side of such balance sheet and (vii) other comprehensive income or expense (as defined by GAAP), to the extent included in subclause (a), (b) or (c) above.

"10-K" is defined in Section 5.3.

"10-Qs" is defined in Section 5.3.

"Unrestricted Subsidiary" means any Subsidiary other than a Subsidiary which has been designated a Restricted Subsidiary. Any Subsidiary which is not expressly designated a Restricted Subsidiary or an Unrestricted Subsidiary shall be deemed designated an Unrestricted Subsidiary.

"Wholly-Owned Restricted Subsidiary" means any Restricted Subsidiary all of the equity interests (other than directors' qualifying shares) and voting interests at the time is owned directly or indirectly by the Company, or by one or more of its Wholly-Owned Restricted Subsidiaries or by the Company and one or more of its Wholly-Owned Restricted Subsidiaries.

SCHEDULE 4.9
CHANGES IN CORPORATE STRUCTURE

None.

Schedule 4.9
(to Amended and Restated Note Agreement)

SCHEDULE 5.4
SUBSIDIARIES OF THE COMPANY AND OWNERSHIP OF SUBSIDIARY STOCK

Subsidiaries of the Company

Corporate Name	Jurisdiction of Incorporation or Formation	Percentage of Shares Held or Beneficially Owned	Restricted Subsidiary (Y/N)
Stepan Europe S.A.	France	100%	N
Stepan Canada, Inc.	Canada	100%	N
Stepan Mexico, S.A. de C.V.	Mexico	100%	N
Stepan Quimica Ltda.	Brazil	100%	N
Stepan Colombiana de Quimicos	Colombia	100%	N
Stepan UK Limited	England and Wales	100% (by Stepan Europe S.A.)	N
Stepan Deutschland GmbH	Germany	100% (by Stepan Europe S.A.)	N

Affiliates of the Company

Corporate Name	Jurisdiction of Incorporation or Formation	Percentage of Shares Held or Beneficially Owned	Restricted Subsidiary (Y/N)
Stepan Philippines S.A. (Joint Venture)	Philippines	50%	N

Directors and Senior Officers of the Company

Name	Title/Office
F. Quinn Stepan	Chairman and Chief Executive Officer
F. Quinn Stepan, Jr.	President and Chief Operating Officer and Director
John V. Venegoni	Vice President and General Manager - Surfactants

Schedule 5.4
(to Amended and Restated Note Agreement)

Directors and Senior Officers of the Company (cont'd)

Robert J. Wood	Vice President and General Manager - Polymers
F. Samuel Eberts III	Vice President, General Counsel and Secretary
Anthony J. Zoglio	Vice President - Manufacturing and Engineering
James E. Hurlbutt	Vice President and Corporate Controller
Kathleen M. Owens	Senior Attorney and Assistant Corporate Secretary
James A. Hartlage	Director
Thomas F. Grojean	Director
Paul H. Stepan	Director
Robert D. Cadieux	Director
Robert G. Potter	Director

Liens on Capital Stock of Subsidiaries of the Company

As guarantee of payment and reimbursement of all sums due in respect to Stepan Europe S.A. term loan, the stock of Stepan UK and Stepan Deutschland were pledged as security to Credit Lyonnais and Lyonnaise de Banque, both of Lyon, France.

In addition, Stepan Europe S.A. also assigned a EUR 3 million mortgage on the land and fixed assets located at Voreppe (Isere, France).

Agreements Containing Restrictions on Ability of Subsidiaries
to Pay Dividends

Stepan Europe S.A. term loan prohibits dividend payments.

Agreements With Requirements Affecting Parent Company

Stepan Europe S.A. bank term loan requires inter-company loans from Stepan Company, as of any year-end, to be equal in amount to the balance then outstanding on the bank term loan.

Schedule 5.4 (cont'd)
(to Amended and Restated Note Agreement)

Schedule 5.5
Financial Statements

December 31, 2000 Form 10-K and Financial Statements (audited):

Consolidated Balance Sheets as of December 31, 2000 and 1999

Consolidated Statements of Income - December 31, 2000, 1999 and 1998

Consolidated Statements of Cash Flows - December 31, 2000, 1999 and 1998

December 31, 2001 Form 10-K and Financial Statements (audited):

Consolidated Balance Sheets as of December 31, 2001 and 2000

Consolidated Statements of Income - December 31, 2001, 2000 and 1999

Consolidated Statements of Cash Flows - December 31, 2001, 2000 and 1999

Interim (unaudited) quarterly Financial Statements - 2002

March 31, 2002 Form 10-Q

June 30, 2002 Form 10-Q

Schedule 5.5
(to Amended and Restated Note Agreement)

SCHEDULE 5.8
CERTAIN LITIGATION

None.

Schedule 5.8
(to Amended and Restated Note Agreement)

SCHEDULE 5.10
PRECAUTIONARY UCC FILINGS

SECURED PARTY	DEBTOR	FILING DATE/FILE #	FILING OFFICE	DOCUMENT TYPE -- PROPERTY COVERED
Forsythe/McArthur Associates, Inc., Lessor	Stepan Company	2/25/93, 3089608	Illinois SOS	UCC-1: Leased computer, data processing, telecommunications and other equipment including attachments, accessories, replacements, products and proceeds relating thereto
Forsythe/McArthur Associates, Inc.	Stepan Company	8/28/97, 3733310	Illinois SOS	UCC-3: Continues 3089608
Pitney Bowes Credit Corporation	Stepan Company	10/27/97, 3755618	Illinois SOS	UCC-1: All equipment of whatever nature manufactured, sold or distributed by Pitney Bowes Credit Inc., Monarch Marketing Systems Inc., Pitney Bowes Credit Corp., Dictaphone Corp. and subject to lease between debtor and secured party, including proceeds, additions and replacements relating thereto
Minolta Business Systems, Inc.	Stepan Company	11/21/97, 3766297	Illinois SOS	UCC-1: Leased Minolta Copier and Controller
Minolta Business Systems, Inc.	Stepan Company	2/1/99, 3981526	Illinois SOS	UCC-1: Leased Minolta Controller
IBM Credit Corporation, Lessor	Stepan Company	3/22/00, 4184547	Illinois SOS	UCC-1: Leased computer information processing and other peripheral equipment and goods wherever located, including additions, accessions, upgrades and replacements
Amcore Consumer Finance, Inc., Assignee	Stepan Company	12/12/97, 1806897	New Jersey SOS	UCC-1: 4 leased Stainless Steel 350 Gal Tanks, includes proceeds

Schedule 5.10
(to Amended and Restated Note Agreement)

SCHEDULE 5.11
PATENTS, ETC.

None.

Schedule 5.11
(to Amended and Restated Note Agreement)

SCHEDULE 5.14
USE OF PROCEEDS

Loan proceeds will be used to repay existing debt as well as for capital expenditures, working capital, acquisitions, dividends and other corporate purposes.

Schedule 5.14 (cont'd)
(to Amended and Restated Note Agreement)

SCHEDULE 5.15
EXISTING INDEBTEDNESS

Indebtedness of the Company and its Subsidiaries outstanding on
September 30, 2002, excluding intercompany loans.

Obligor	Creditor	Description of Indebtedness (including interest rate)	Collateral (if any)	Maturity	Outstanding Principal Amount (\$000's)
Stepan Company	The Northwestern Mutual Life Insurance Company	9.70% Notes	None	Original Stated: 2006 Current: 2003	\$ 667
Stepan Company	The Northwestern Mutual Life Insurance Company	7.22% Notes	None	Original Stated: 2008 Current: 2007	\$ 5,000
Stepan Company	The Northwestern Mutual Life Insurance Company	7.69% Notes	None	2005	\$ 2,250
Stepan Company	The Northwestern Mutual Life Insurance Company	7.77% Notes	None	2010	\$ 8,182
Stepan Company	The Northwestern Mutual Life Insurance Company	6.59% Notes	None	2013	\$ 20,000
Stepan Company	The Northwestern Mutual Life Insurance Company	6.86% Notes	None	2015	\$ 20,000

Schedule 5.15
(to Amended and Restated Note Purchase Agreement)

Stepan Company	The Northwestern Mutual Life Insurance Company for its Group Annuity Separate Account	6.86% Notes	None	2015	\$ 1,000
Stepan Company	Aid Association for Lutherans	7.22% Notes	None	Original Stated: 2008 Current: 2007	\$ 5,000
Stepan Company	Aid Association for Lutherans	7.69% Notes	None	2005	\$ 2,250
Stepan Company	Aid Association for Lutherans	7.77% Notes	None	2010	\$ 8,182
Stepan Company	Thrivent Financial for Lutherans	6.86% Notes	None	2015	\$ 3,000
Stepan Company	The Mutual Life Insurance Company of New York	7.22% Notes	None	Original Stated: 2008 Current: 2007	\$ 5,000
Stepan Company	The Mutual Life Insurance Company of New York	7.69% Notes	None	2005	\$ 1,500
Stepan Company	The Mutual Life Insurance Company of New York	7.77% Notes	None	2010	\$ 5,454
Stepan Company	MONY Life Insurance Company	6.86% Notes	None	2015	\$ 3,000
Stepan Company	Connecticut General Life Insurance Company	6.59% Notes	None	2013	\$ 10,000

Schedule 5.15 (cont'd)
(to Amended and Restated Note Agreement)

Stepan Company	Connecticut General Life Insurance Company	6.86% Notes	None	2015	\$ 3,000
Stepan Europe S.A.	Credit Lyonnais (50%) Lyonnaise de Banque (50%)	Term Loan	Shares of Stepan UK and Stepan Deutschland, EUR 3MM mortgage on the land & fixed assets located at Voreppe (Isere, France).	2008	EUR 12,904
Stepan Europe S.A.	Water Agency	Government Subsidy	None	2007	EUR 103
Stepan Deutschland GmbH	SEB AG	5.50% term loan	None	2006	EUR 1,125

Agreements providing for putative Liens on properties of the Company and its Subsidiaries:

None.

Schedule 5.15 (cont'd)
(to Amended and Restated Note Agreement)

SCHEDULE 5.18
ENVIRONMENTAL MATTERS

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 (CERCLA) 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 USEPA to the company for property currently owned by the company, the company completed a Remedial Investigation Feasibility Study (RI/FS) in 1994. The company has also submitted additional information regarding the remediation, most recently in February 2002. Discussions between USEPA and the company are continuing. The company is awaiting the issuance of a Record of Decision (ROD) from USEPA relating to the currently owned and formerly owned company property and the proposed remediation. The final ROD will be issued sometime after the public comment period.

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 (DOE) took title to radiological contaminated materials and was to remediate, at its expense, all radiological waste on the company's property in Maywood, New Jersey. The Maywood property (and portions of the surrounding area) were remediated by the DOE 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 a USACE Report to Congress dated January 1998 in which the USACE 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. Subsequent to the issuance of that report, the USACE advised the company that it had requested legal advice from the Department of Justice as to the impact of the Agreement.

By letter dated July 28, 2000, the Department of Justice advised the company that the USACE and USEPA had referred to the Justice Department claims against the company for response costs incurred or to be incurred by the USACE, USEPA and the DOE in connection with the Maywood site and the Justice Department stated that the United States is entitled to recovery of its response costs from the company under CERCLA. The letter referred to both radiological and non-radiological hazardous waste at the Maywood site and stated that the United States has incurred unreimbursed response costs to date of \$138 million. Costs associated with radiological waste at the Maywood site, which the company believes represent all but a small portion of the amount referred to in the Justice Department letter, could be expected to aggregate substantially in excess of that amount. In the letter, the Justice Department invited the company to discuss settlement of the matter in order to avoid the need for litigation. The company believes that its liability, if any, for such costs has been resolved by the aforesaid Agreement. Despite the fact that the company continues to believe that it has no liability to the United States for such costs, discussions with the Justice Department are currently ongoing to attempt to resolve this matter.

Schedule 5.18
(to Amended and Restated Note Agreement)

The company believes it has adequate reserves for claims associated with the Maywood site. However, depending on the results of the ongoing discussions regarding the Maywood site, the final cost of the remediation could differ from the current estimates.

As reported previously, the company has been named as a potentially responsible party (PRP) in the case USEPA v. Jerome Lightman (92 CV 4710 D. N. J.) 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 was completed in March 2000. The company is awaiting a decision from the court. If the company is found liable at either site, a second trial as to the company's allocated share of clean-up costs at these sites will likely be held in 2003. The company believes it has adequate defenses to the issue of liability. In the event of an unfavorable outcome related to the issue of 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.

Regarding the D'Imperio Superfund Site, USEPA has indicated it will seek penalty claims against the company based on the company's alleged noncompliance with the modified Unilateral Administrative Order. The company is currently negotiating with USEPA to settle its proposed penalty against the company but does not believe that a settlement, if any, will have a material impact on the financial condition of the company. In addition, the company also received notice from the New Jersey Department of Environmental Protection (NJDEP) dated March 21, 2001, that NJDEP has indicated it will pursue cost recovery against the alleged responsible parties, including the company. The NJDEP's claims include costs related to remediation of the D'Imperio Superfund Site in the amount of \$434,405.53 and alleged natural resource damages in the amount of \$529,584.00 (as of November 3, 2000). The NJDEP settled such claims against the alleged responsible parties, resulting in the company paying its portion of \$83,061.00 in July 2002. This payment is subject to reallocation after the allocation phase of the above-identified trial, if any. The payment did not have a material impact on the financial condition of the company.

As reported previously, the company received a Section 104(e) Request for Information from USEPA dated March 21, 2000, regarding the Lightman Drum Company Site located in Winslow Township, New Jersey. The company responded to this request on May 18, 2000. In addition, the company received a Notice of Potential Liability and Request to Perform RI/FS dated June 30, 2000, from USEPA. The company has decided that it will participate in the performance of the RI/FS. However, based on the current information known regarding this site, the company is unable to predict what its liability, if any, will be for this site.

Schedule 5.18 (cont'd)
(to Amended and Restated Note Agreement)

SCHEDULE 10.5
EXISTING INVESTMENTS AS OF DECEMBER 31, 2001

Investment In	Amount of Investment* (\$000's)
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Stepan Europe S.A.	\$ 26,762
Stepan Philippines S.A.	\$ 8,814
Stepan Mexico S.A. de C.V.	\$ 5,754
Stepan Colombiana de Quimicos	\$ 4,311
Stepan Canada, Inc.	\$ 880
Stepan Quimica Ltda.	\$ 221

* Investments are shown at cost at the time of investment, without allowance for any subsequent write-offs, appreciation or depreciation, less any amounts repaid or recovered on account of capital or principal.

Schedule 10.5
(to Amended and Restated Note Agreement)

STEPAN COMPANY

9.70% Amended and Restated Senior Note, Series B, due April 1, 2006

No. _____
\$ _____

[Date]
PPN 858586 E#3

For Value Received, the undersigned, Stepan Company (herein called the "Company"), a corporation organized and existing under the laws of the State of Delaware, hereby promises to pay to _____, or registered assigns, the principal sum of _____ Dollars on April 1, 2006, with interest (computed on the basis of a 360-day year of twelve 30-day months) (a) on the unpaid balance thereof at the rate of 9.70% per annum from the date hereof, payable semiannually, on the first day of each April and October in each year, commencing with the April 1 or October 1 next succeeding the date hereof, until the principal hereof shall have become due and payable, and (b) to the extent permitted by law on any overdue payment (including any overdue prepayment) of principal, any overdue payment of interest and any overdue payment of any Make-Whole Amount (as defined in the Amended and Restated Note Agreement referred to below), payable semiannually as aforesaid (or, at the option of the registered holder hereof, on demand), at a rate per annum from time to time equal to the greater of (i) 10.70% or (ii) the rate of interest publicly announced by Bank One, N.A. from time to time in Chicago, Illinois as its "base" or "prime" rate.

Payments of principal of, interest on and any Make-Whole Amount with respect to this Note are to be made in lawful money of the United States of America at the Company's office in Northfield, Illinois or at such other place as the Company shall have designated by written notice to the holder of this Note as provided in the Amended and Restated Note Agreement referred to below.

This Note is one of the Senior Notes (herein called the "Notes") issued pursuant to the Amended and Restated Note Agreement, dated as of December __, 2002 (as from time to time amended, the "Amended and Restated Note Agreement"), among the Company and the respective Noteholders named therein and is entitled to the benefits thereof. Each holder of this Note will be deemed, by its acceptance hereof, (i) to have agreed to the confidentiality provisions set forth in Section 20 of the Amended and Restated Note Agreement and (ii) to have made the representation set forth in Section 6.2 of the Amended and Restated Note Agreement, provided that such holder may (in reliance upon information provided by the Company, which shall not be unreasonably withheld) make a representation to the effect that the purchase by such holder of any Note will not constitute a non-exempt prohibited transaction under Section 406(a) of ERISA.

This Note is a registered Note and, as provided in the Amended and Restated Note Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for a like principal amount will be

Exhibit 1
(to Amended and Restated Note Agreement)

issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company will not be affected by any notice to the contrary.

The Company will make required prepayments of principal on the dates and in the amounts specified in the Amended and Restated Note Agreement. This Note is also subject to optional prepayment, in whole or from time to time in part, at the times and on the terms specified in the Amended and Restated Note Agreement, but not otherwise.

If an Event of Default, as defined in the Amended and Restated Note Agreement, occurs and is continuing, the principal of this Note may be declared or otherwise become due and payable in the manner, at the price (including any applicable Make-Whole Amount) and with the effect provided in the Amended and Restated Note Agreement.

This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of Illinois excluding choice-of-law principles of the law of such State that would require the application of the laws of a jurisdiction other than such State.

Stepan Company

By _____
Name:
Title:

DESCRIPTION OF OPINION OF COUNSEL
TO THE COMPANY

The legal opinion of F. Samuel Eberts III, General Counsel of the Company, which is called for by Section 4.4(a) of the Amended and Restated Note Agreement, shall be dated the Effective Date and addressed to the Noteholders, shall be satisfactory in scope and form to the Noteholders and shall be to the effect that:

1. The Company is a corporation, duly incorporated, validly existing and in good standing under the laws of the State of Delaware, has the corporate power and the corporate authority to execute and perform the Amended and Restated Note Agreement and to issue the Notes and has the full corporate power and the corporate authority to conduct the activities in which it is now engaged and is duly licensed or qualified and is in good standing as a foreign corporation in each jurisdiction in which the character of the properties owned or leased by it or the nature of the business transacted by it makes such licensing or qualification necessary.

2. The Amended and Restated Note Agreement has been duly authorized by all necessary corporate action on the part of the Company, has been duly executed and delivered by the Company and constitutes the legal, valid and binding contract of the Company enforceable in accordance with its terms, subject to bankruptcy, insolvency, fraudulent conveyance and similar laws affecting creditors' rights generally, and general principles of equity (regardless of whether the application of such principles is considered in a proceeding in equity or at law).

3. The Notes have been duly authorized by all necessary corporate action on the part of the Company, have been duly executed and delivered by the Company and constitute the legal, valid and binding obligations of the Company enforceable in accordance with their terms, subject to bankruptcy, insolvency, fraudulent conveyance and similar laws affecting creditors' rights generally, and general principles of equity (regardless of whether the application of such principles is considered in a proceeding in equity or at law).

4. No order, permission, consent or approval of any federal or state commission, board or regulatory body is required as a condition to the lawful execution and delivery of the Amended and Restated Note Agreement or the Notes.

5. The issuance of the Notes and the execution, delivery and performance by the Company of the Amended and Restated Note Agreement do not conflict with or result in any breach of any of the provisions of or constitute a default under or result in the creation or imposition of any Lien upon any of the property of the Company pursuant to the provisions of the Certificate of Incorporation or By-laws of the Company, any law or any agreement or other instrument known to such counsel to which the Company is a party or by which the Company may be bound.

Exhibit - 4.4(a)

6. The issuance and delivery of the Notes under the circumstances contemplated by the Amended and Restated Note Agreement do not, under existing law, require the registration of the Notes under the Securities Act of 1933, as amended, or the qualification of an indenture under the Trust Indenture Act of 1939, as amended.

7. Except as set forth in the 10-K or in Schedule 5.8, there are no actions, suits or proceedings pending or, to the best knowledge and belief of such counsel, threatened against or affecting the Company, at law or in equity or before or by any federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, an adverse determination with respect to which may result in any material adverse change in the business, properties, assets or condition, financial or otherwise, of the Company.

The opinion of F. Samuel Eberts III shall cover such other matters relating to the amendment and restatement of the Existing Agreements and the exchange of the Existing Notes as the Noteholders may reasonably request. With respect to matters of fact on which such opinion is based, such counsel shall be entitled to rely on appropriate certificates of public officials and officers of the Company.

DESCRIPTION OF OPINION OF SPECIAL COUNSEL
TO THE NOTEHOLDERS

The legal opinion of Chapman and Cutler, special counsel to the Noteholders, called for by Section 4.4(b) of the Amended and Restated Note Agreement, shall be dated the Effective Date and addressed to the Noteholders, shall be satisfactory in form and substance to the Noteholders and shall be to the effect that:

1. The Company is a corporation, validly existing and in good standing under the laws of the State of Delaware and has the corporate power and the corporate authority to execute and deliver the Amended and Restated Note Agreement and to issue the Notes.

2. The Amended and Restated Note Agreement has been duly authorized by all necessary corporate action on the part of the Company, has been duly executed and delivered by the Company and constitutes the legal, valid and binding contract of the Company enforceable in accordance with its terms, subject to bankruptcy, insolvency, fraudulent conveyance and similar laws affecting creditors' rights generally, and general principles of equity (regardless of whether the application of such principles is considered in a proceeding in equity or at law).

3. The Notes have been duly authorized by all necessary corporate action on the part of the Company, and the Notes being delivered on the date hereof have been duly executed and delivered by the Company and constitute the legal, valid and binding obligations of the Company enforceable in accordance with their terms, subject to bankruptcy, insolvency, fraudulent conveyance and similar laws affecting creditors' rights generally, and general principles of equity (regardless of whether the application of such principles is considered in a proceeding in equity or at law).

4. The issuance and delivery of the Notes under the circumstances contemplated by the Amended and Restated Note Agreement do not, under existing law, require the registration of the Notes under the Securities Act of 1933, as amended, or the qualification of an indenture under the Trust Indenture Act of 1939, as amended.

The opinion of Chapman and Cutler shall also state that the opinions of F. Samuel Eberts III is satisfactory in scope and form to Chapman and Cutler and that, in their opinion, the Noteholders are justified in relying thereon.

In rendering the opinion set forth in paragraph 1 above, Chapman and Cutler may rely solely upon an examination of the Certificate of Incorporation certified by, and a certificate of good standing of the Company from, the Secretary of State of the State of Delaware, the By-laws of the Company and the General Corporation Law of the State of Delaware. The opinion of Chapman and Cutler is limited to the laws of the State of Illinois, the General Corporation Law of the State of Delaware and the Federal laws of the United States.

With respect to matters of fact upon which such opinion is based, Chapman and Cutler may rely on appropriate certificates of public officials and officers of the Company and upon

Exhibit 4.4(b)

representations of the Company and the Noteholders delivered in connection with the issuance of the Notes.

E-4.4(b)-2

**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
Stepan UK Limited	United Kingdom

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statements Nos. 2-64668, 2-40183, 2-80336, 33-57189 and 333-39938 on Form S-8 of Stepan Company of our report dated February 10, 2003 included in this Form 10-K of Stepan Company for the year ended December 31, 2002.

DELOITTE & TOUCHE LLP
Chicago, Illinois
March 21, 2003

POWER OF ATTORNEY

The undersigned hereby appoints F. Quinn Stepan, James E. Hurlbutt and F. Samuel Eberts III 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 7th day of March, 2003.

/s/ F. Quinn Stepan

F. Quinn Stepan

/s/ F. Quinn Stepan, Jr.

F. Quinn Stepan, Jr.

/s/ James E. Hurlbutt

James E. Hurlbutt

/s/ Stephen D. Newlin

Stephen D. Newlin

/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

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Stepan Company (the "Company") on Form 10-K for the fiscal year ended December 31, 2002, as amended, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. (S) 1350, as adopted pursuant to (S) 906 of the Sarbanes-Oxley Act of 2002, that, to such officer's knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15 of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 21, 2003

/s/ F. Quinn Stepan
Name: F. Quinn Stepan
Title: Chief Executive Officer

/s/ James E. Hurlbutt
Name: James E. Hurlbutt
Title: Vice President and Corporate Controller