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

FORM 10-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
 OF THE SECURITIES EXCHANGE ACT OF 1934
 For the fiscal year ended December 31, 1998
 OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
 SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]
 For the Transition period from to
 Commission File No. 1-4462

 STEPAN COMPANY

(Exact name of registrant as specified in its charter)
 Delaware 36-1823834
 (State or other jurisdiction of (I.R.S. Employer
 incorporation or organization) Identification Number)
 Edens and Winnetka Road, 60093
 Northfield, Illinois (Zip Code)
 (Address of principal executive
 offices)
 Registrant's telephone number including area code: 847-446-7500
 Securities registered pursuant to Section 12 (b) of the Act:

Title of Each Class -----	Name of Each Exchange on Which Registered -----
Common Stock, \$1 par value	New York Stock Exchange Chicago Stock Exchange
5 1/2% Convertible Preferred Stock, no par value	New York Stock Exchange Chicago Stock Exchange

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in part III of this Form 10-K or any amendment to this Form 10-K. []

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Aggregate market value at February 28, 1999, of voting stock held by nonaffiliates of the registrant: \$161,889,000*

Number of shares outstanding of each of the issuer's classes of common stock as of February 28, 1999:

Class -----	Outstanding at February 28, 1999 -----
Common Stock, \$1 par value	9,678,176

Documents Incorporated by Reference

Part of Form 10-K -----	Document Incorporated -----
Part I, Item 1	1998 Annual Report to Stockholders
Part II, Items 5-8	1998 Annual Report to Stockholders
Part III, Items 10-12	Proxy Statement dated March 30, 1999

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

PART I

Item 1. Business

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

In mid 1998, the company purchased the remaining 50 percent ownership of its Colombian joint venture. As a result, Stepan Colombiana de Quimicos (Stepan Colombia) became a wholly owned subsidiary.

Effective June 30, 1998, the company acquired selected specialty surfactant product lines from E.I. DuPont De Nemours Company. The acquired business consists of phosphate esters, specialty ethoxylates and other specialty quaternaries and polymers sold to the plastic and fiber industries. The product lines supplement the company's existing surfactants and polymers businesses and will be produced in current company manufacturing plants.

On November 11, 1998, the company's wholly owned subsidiary, Stepan Canada, Inc., acquired the Canadian anionic and cationic surfactant business from Boehme Filatex Canada, Inc. The acquired product lines are sold primarily into the personal care and the institutional cleaning product markets.

MARKETING AND COMPETITION

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

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

MAJOR CUSTOMER AND BACKLOG

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

ENERGY SOURCES

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

RAW MATERIALS

The most important raw materials used by the company are of a petroleum or vegetable nature. For 1999, 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 1998, 1997 and 1996 were \$12,219,000, \$12,404,000, and \$12,469,000, respectively. During 1998 and 1997, the research and development staff consisted of 188 and 182 employees, respectively. The balance of expenses reflected on the Consolidated Statements of Income relates to technical services which include routine product testing, quality control and sales support service.

ENVIRONMENTAL COMPLIANCE

Compliance with applicable federal, state and local regulations regarding the discharge of materials into the environment, or otherwise relating to the protection of the environment, resulted in capital expenditures by the company of approximately \$7,136,000 during 1998. Such capital expenditures in 1999 should approximate \$4.0 to \$5.0 million. These expenditures represented approximately 16 percent of the company's capital expenditures in 1998 and are expected to be approximately 14 percent of such expenditures in 1999. These expenditures, when incurred, are depreciated and charged on a straight-line basis to pre-tax earnings over their respective useful lives which are typically 10 years. Compliance with such regulations is not expected to have a material adverse effect on the company's earnings and competitive position in the foreseeable future.

EMPLOYMENT

At December 31, 1998 and 1997, the company employed worldwide 1,372 and 1,292 persons, respectively.

FOREIGN OPERATIONS

See Note 13, Segment Reporting, on page 35 of the company's 1998 Annual Report to Stockholders.

SEGMENTS

The company has three reportable segments: surfactants, polymers and specialty products. Their contribution to sales for the three years ended December 31, 1998, were:

	Surfactants	Polymers	Specialty Products
	-----	-----	-----
1998.....	78%	18%	4%
1997.....	79%	18%	3%
1996.....	77%	19%	4%

See Note 13, Segment Reporting, on page 35 of the company's 1998 Annual Report to Stockholders.

Item 2. Properties

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

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

Surfactants are produced at four plants in the United States and five wholly owned subsidiaries: one in France, Canada, Mexico, Colombia and Germany. The principal plant is located on a 626 acre site at Millsdale (Joliet), Illinois. A second plant is located on a 44 acre tract in Fieldsboro, New Jersey. West Coast operations are conducted on an eight acre site in Anaheim, California. A fourth plant is located on a 175 acre site in Winder, Georgia. The plant, laboratory and office of Stepan Europe are located on a 20 acre site near Grenoble, France. Stepan Canada, Inc. is located on a 70 acre leased, with an option to purchase, site in Longford Mills, Ontario, Canada. Stepan Mexico is located on a 13 acre site in Matamoros, Mexico. Stepan Germany is located on a five acre site in Cologne, Germany. Stepan Colombia is located on a five acre site in Manizales, Colombia. The phthalic anhydride, polyurethane systems and polyurethane polyols plants are also located at Millsdale. Specialty products are mainly produced at a plant located on a 19 acre site in Maywood, New Jersey.

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

Item 3. Legal Proceedings

On October 22, 1998, the company received a general notice letter indicating that the company might be a potentially responsible party at the Casmalia Disposal Site in Santa Barbara County, California. Following request for information, the company was apprised that it is considered to be a de minimis party at this site and that the United States Environmental Protection Agency (USEPA) has allocated the company an amount of \$269,955 to settle this liability with regard to this site. Because of the way in which the numbers at this site were arrived at by the USEPA, the company has joined a de minimis settling parties group to see if this amount can be reduced. Discussions with the EPA are continuing.

On December 28, 1998, the company received notification that it may be a potentially responsible party at the Four County Landfill in DeLonge, Indiana as a result of the company's Maywood, New Jersey operations utilizing Chem Met Inc. as a waste hauler. The allegation is that Chem Met reportedly transshipped wastes from the company's Maywood, New Jersey facility to the site. While the company denies liability at this site, the company has entered into an Agreed Order for Remedial Design/Remedial Action for Operable Unit 1 and has paid the amount of \$400 in settlement of its obligations thereunder.

As reported previously, the company was notified pursuant to Section 107A of the Comprehensive Environmental Response Compensation and Liability Act (CERCLA) as amended that it may be potentially

responsible for the response costs that have been incurred with respect to a landfill site known as the Ewan Property Superfund Site located in Shawong Township, Burlington County, New Jersey. The company's alleged liability at this site arises out of the alleged illegal disposal of waste at this site by Lightman Drum Company in the early 1970s. The company and other PRPs have agreed to a non-binding allocation process and have been funding remediation activities at this site. The company is however, contesting its liability at this site as more fully described below in U.S. v. Jerome Lightman (92CV4710) (JVS).

As reported previously, the company was named a third-party defendant in an action entitled U.S. v. Jerome Lightman (92CV4710) (JVS) which case originally involved only the Government's claim for past costs at the landfill site at D'Imperio located in Hamilton Township, New Jersey. This site is another one at which Lightman Drum Company allegedly illegally disposed of waste. Cross-claims were filed by each potentially responsible party against other potentially responsible parties and the suit as to these cross-claims has been expanded to include the Ewan Shawong Township site as well. As an accommodation, the company has agreed previously to make payment, without admitting its liability, to the Government for the Government's past costs with regard to this site. The Consent Order with the Government has been lodged and the company has filed objections to it, because the company believes it has defenses to the past costs. Payment of past costs removed the Government from the lawsuit but the cross-claims filed by each potentially responsible party against the other party are left. As to these cross-claims, the company has filed a motion for summary judgment and motion to strike other third-party defendants' expert witnesses. It is anticipated that a ruling from the Federal District Court in Trenton, New Jersey will appear in May or June of 1999. If the company's motions are granted, the company believes that its liability at both the Ewan and D'Imperio sites will cease.

As to other following sites:

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

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

As reported previously in November 1992, the company received notification from Olin Corporation that Olin Corporation had incurred costs in cleaning up a plant site formerly owned by the company in Wilmington, Massachusetts. The company entered into a settlement agreement with Olin which resolved its liability with regard to the company's liability for environmental matters at this site, if any. Subsequent thereto, Olin Corporation sued three prior owners of this site who in turn, bought the company and is a third-party defendant in an action entitled Olin Corporation v. Fisions plc, et al., Civil Action No. 93-11166-MLW. The company subsequently filed a motion for contribution protection and was granted that protection with regard to all matters with the exception of Resource, Conservation and Recovery Act claims brought by the third party against the company. That motion is still pending in the Federal District Court in Boston. Discovery continues in the case and the company cannot estimate what its liability, if any, will be for this third-party RCRA claim, if any, but believes it is protected from liability under the laws of contribution of the Commonwealth of Massachusetts.

The company's site in Maywood, New Jersey and property formerly owned by the company adjacent to its current site, were listed on the National Priorities List in September 1993 pursuant to the provisions of the

Comprehensive Environmental Response Compensation and Liabilities Act because of certain alleged chemical contaminations. Pursuant to an Administrative Order on Consent entered into between the United States Environmental Protection Agency (USEPA) and the company for property formerly owned by the company, and the issuance of an order by the USEPA to the company for property currently owned by the company, the company has completed a Remedial Investigation Feasibility study in 1994. The company has been awaiting the issuance of a Record of Decision from the USEPA which would relate to both the currently owned and formerly owned company property and would recommend the type of remediation required on each property. It is now estimated that a Record of Decision will be issued by the USEPA in the third quarter of 1999.

As to radiological contamination on the company's property and other properties in Maywood, Rochelle Park and Lodi, New Jersey, the company entered into a Memorandum of Understanding with the United States of America represented by the Department of Energy (Agreement) in 1985. Pursuant to this Agreement, the Department of Energy took title to radiological contaminated materials and was to remediate, at its expense, all radiological contamination on the company's property and other properties in the Maywood, Rochelle Park and Lodi areas. The properties were remediated by the Department of Energy under the Formerly Utilized Sites Remedial Action Program, a federal program under which the U.S. Government undertook to remediate properties which were used to process radiological material for the U.S. Government. In 1997, responsibility for this clean-up was transferred to the United States Army Corps of Engineers (USACE). On January 29, 1999, the company received a copy of the USACE Report to Congress dated January 1998 in which the USACE expressed their intention to evaluate with the USEPA whether the company or other parties might be responsible for cost recovery or contributions for work performed by the USACE and to turn over such evaluations at some time in the future, to the Department of Justice for the Department of Justice to determine whether or not cost recovery or contribution claims are appropriate against the company or other parties who may be potentially responsible for radiological contamination from commercial operations or for chemically contaminating the radiological contamination.

As no claim for contribution or cost recovery has been made by the Department of Justice, the company cannot make any estimate as to its liability, if any. However, given the fact that the company has the Agreement with the United States of America covering radiological remediation, it is the company's belief that its liability, if any, has been resolved with regard to the United States of America as to the radiological contamination, including radiological contamination which is co-mingled with other chemicals.

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, 1998.

Executive Officers of the Registrant

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

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

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

Charles W. Given retired in 1998. He held a number of positions in the company, most recently as Vice President--Corporate Development.

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

The Executive Officers of the company, their ages as of February 28, 1999, and certain other information are as follows:

Name ----	Age ---	Title -----	Year First Elected Officer -----
F. Quinn Stepan.....	61	Chairman and Chief Executive Officer	1967
James A. Hartlage....	61	Senior Vice President--Technology and Operations	1980
Ronald L. Siemon.....	61	Vice President and General Manager--Polymers	1992
Jeffrey W. Bartlett....	55	Vice President, General Counsel, Regulatory Affairs and Corporate Secretary	1983
Walter J. Klein.....	52	Vice President--Finance	1985
Mickey Mirghanbari.	61	Vice President--Manufacturing and Engineering	1992
Earl H. Wagener.....	58	Vice President--Research and Development	1995
F. Quinn Stepan, Jr..	38	President and Chief Operating Officer	1997
John V. Venegoni....	40	Vice President and General Manager--Surfactants	1999

PART II

Item 5. Market for Registrant's Common Stock and Related Security Holder Matters

(a) The company's common stock is listed and traded on both the New York Stock Exchange and the Chicago Stock Exchange. See page 37 of the company's 1998 Annual Report to Stockholders for market price information which is incorporated by reference herein.

The company's 5 1/2 percent convertible preferred stock is listed and traded on the New York Stock Exchange and the Chicago Stock Exchange. See Note 7 on page 31 of the company's 1998 Annual Report to Stockholders for the description of the preferred stockholders' rights which is incorporated by reference herein.

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

(b) On February 28, 1999, there were 1,522 holders of common stock of the company.

(c) See page 37 of the company's 1998 Annual Report to Stockholders for dividend information which is incorporated by reference herein. Also see Note 4 on page 29 of the company's 1998 Annual Report to Stockholders which sets forth the restrictive covenants covering dividends.

Item 6. Selected Financial Data

See page 37 of the company's 1998 Annual Report to Stockholders for a five year summary of selected financial information which is incorporated by reference herein.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures about Market Risk

See pages 14 through 20 of the company's 1998 Annual Report to Stockholders which is incorporated by reference herein.

Some information contained in the Management's Discussion and Analysis is forward looking and involves risks and uncertainties. The results achieved this year are not necessarily an indication of future prospects for the company. Actual results in future years may differ materially. Potential risks and uncertainties include, among others, fluctuations in the volume and timing of product orders, changes in demand for the company's products, changes in technology, continued competitive pressures in the marketplace, availability of raw materials, foreign currency fluctuations and general economic conditions.

Item 8. Financial Statements and Supplementary Data

See pages 21 through 36 of the company's 1998 Annual Report to Stockholders for the company's consolidated financial statements, notes to the consolidated financial statements and auditors' report which are incorporated by reference herein.

See page 37 of the company's 1998 Annual Report to Stockholders for selected quarterly financial data which is incorporated by reference herein.

Item 9. Disagreements on Accounting and Financial Disclosure

None

PART III

Item 10. Directors and Executive Officers of the Registrant

(a) Directors

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

For additional information about the company's Directors, see pages 3 through 5 of the company's Proxy Statement dated March 30, 1999, for the Annual Meeting of Stockholders which are incorporated by reference herein.

(b) Executive Officers

See Executive Officers of the Registrant in Part I above.

Item 11. Executive Compensation

See pages 7 and 8 of the company's Proxy Statement dated March 30, 1999, for the Annual Meeting of the Stockholders which are incorporated by reference herein.

Item 12. Security Ownership of Certain Beneficial Owners and Management

See pages 1 through 6 of the company's Proxy Statement dated March 30, 1999, for the Annual Meeting of Stockholders which are incorporated by reference herein.

Item 13. Certain Relationships and Related Transactions

None

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) & (d) Financial Statements and Schedules

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

(b) Reports on Form 8-K

None

(c) Exhibits

See Exhibit Index filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Stepan Company

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

March 29, 1999

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.

F. Quinn Stepan	Chairman, Chief Executive Officer and Director	March 29, 1999
F. Quinn Stepan		
F. Quinn Stepan, Jr.	President, Chief Operating Officer and Interim Director	March 29, 1999
F. Quinn Stepan, Jr.		
Walter J. Klein	Vice President--Finance, Principal Financial and Accounting Officer	March 29, 1999
Walter J. Klein		
James A. Hartlage	Senior Vice President-- Technology and Operations and Director	March 29, 1999
James A. Hartlage		
Thomas F. Grojean	Director	March 29, 1999
Thomas F. Grojean		
Paul H. Stepan	Director	March 29, 1999
Paul H. Stepan		
Robert D. Cadieux	Director	March 29, 1999
Robert D. Cadieux		
Robert G. Potter	Director	March 29, 1999
Robert G. Potter		

Jeffrey W. Bartlett, pursuant to powers of attorney executed by each of the directors and officers listed above, does hereby execute this report on behalf of each of such directors and officers in the capacity in which the name of each appears above.

Jeffrey W. Bartlett

March 29, 1999

INDEX TO THE
CONSOLIDATED FINANCIAL STATEMENTS
AND
SUPPLEMENTAL SCHEDULE

A copy of Stepan Company's Annual Report to Stockholders for the year ended December 31, 1998, has been filed as an exhibit to this Annual Report on Form 10-K. Pages 21 through 36 of such Annual Report to Stockholders contain the Consolidated Balance Sheets as of December 31, 1998 and 1997, the Consolidated Statements of Income, Stockholders' Equity and Cash Flows and Notes to Consolidated Financial Statements for the three years ended December 31, 1998, 1997 and 1996, and the Auditors' Report covering the aforementioned financial statements. These consolidated financial statements and the Auditors' Report thereon are incorporated herein by reference.

Supplemental Schedule II--Allowance for Doubtful Accounts--to Consolidated Financial Statements, which is required to comply with regulation S-X, and the Auditors' report on such Supplemental Schedule are included on pages 11 and 12 of this Form 10-K.

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

STEPAN COMPANY

SUPPLEMENTAL SCHEDULE TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 1998
 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:

	1998	1997	1996
	-----	-----	-----
	(In Thousands)		
Balance, Beginning of Year.....	\$2,121	\$2,074	\$1,744
Provision charged to income.....	339	548	442
Accounts written off, net of recoveries.....	(197)	(501)	(112)
	-----	-----	-----
Balance, End of Year.....	\$2,263	\$2,121	\$2,074
	=====	=====	=====

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS
ON SUPPLEMENTAL SCHEDULE

To Stepan Company:

We have audited in accordance with generally accepted auditing standards, the financial statements included in Stepan Company's Annual Report to Stockholders incorporated by reference in this Form 10-K, and have issued our report thereon dated February 11, 1999. Our audit was made for the purpose of forming an opinion on those statements taken as a whole. The supplemental schedule listed in the index of financial statements is the responsibility of the company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Arthur Andersen LLP

Chicago, Illinois,
February 11, 1999

EXHIBIT INDEX

Exhibit No. -----	Description -----
(3)a	Copy of the Certificate of Incorporation, and the Certificates of Amendment of Certificate of Incorporation dated May 6, 1968, April 20, 1972, April 16, 1973, December 2, 1983. Filed with the Company's Annual Report on Form 10-K for the year ended December 31, 1983, and incorporated herein by reference.
(3)b	Copy of the Bylaws of the company as amended through February 15, 1999.
(3)c	Copy of Certificate of Amendment, dated April 28, 1993, to Article IV of Certificate of Incorporation. (Note 7)
(3)d	Copy of Certificate of Amendment, dated May 5, 1987, to Article X of Certificate of Incorporation. (Note 1)
(4)h	Copy of Loan Agreement dated June 15, 1995, with Aid Association for Lutherans, the Northwestern Mutual Life Insurance Company and The Mutual Life Insurance Company of New York. (Note 10)
(4)i	Copy of Revolving Credit and Term Loan Agreement dated February 20, 1990, with The First National Bank of Chicago and the amendment dated March 21, 1990. (Note 3)
(4)m	Copy of Second Amendment dated September 20, 1991, amending Revolving Credit and Term Loan Agreement dated February 20, 1990 (see (4)i above). (Note 4)
(4)m(1)	Copy of Third Amendment dated December 29, 1992, amending Revolving Credit and Term Loan Agreement dated February 20, 1990 (see (4)i and (4)m above). (Note 8)
(4)m(2)	Copy of Fourth Amendment dated May 31, 1994, amending Revolving Credit and Term Loan Agreement dated February 20, 1990 (see (4)i, (4)m and (4)m(1) above). (Note 9)
(4)n(1)	Copy of Certificate of Designation, Preferences and Rights of the 5 1/2% Convertible Preferred Stock, without Par Value and the Amended Certificate dated August 12, 1992 and April 28, 1993. (Note 7)
(4)n(2)	Copy of Issuer Tender Offer Statement on Schedule 13E-4 dated August 13, 1992. (Note 6)
(4)n(3)	Copy of Amendment No. 1 to Schedule 13E-4 (see also (4)n(2) above) dated September 23, 1992. (Note 6)
(4)n(4)	Copy of the company's Form 8-A dated August 13, 1992. (Note 6)
(4)o	Copy of Revolving Credit and Term Loan Agreement dated January 9, 1998, with The First National Bank of Chicago. (Note 11)
(4)p	Copy of Term Loan Agreement dated October 1, 1998, with The Northwestern Mutual Life Insurance Company and Connecticut General Life Insurance Company. 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)

Exhibit No. -----	Description -----
(10)e	Copy of Leveraged Employee Stock Ownership Plan. (Note 3)
(10)f	Copy of the company's 1992 Stock Option Plan. (Note 5)
(13)	Copy of the company's 1998 Annual Report to Stockholders.
(18)	Letter re change in accounting principle for the year ended December 31, 1992. (Note 8)
(21)	Subsidiaries of Registrant at December 31, 1998.
(23)	Consent of Independent Public Accountants.
(24)	Power of Attorney.
(27)	Financial Data Schedule.

Notes To Exhibit Index

Note No. -----	Description
1.	Filed with the company's Annual Report on Form 10-K for the year ended December 31, 1987, and incorporated herein by reference.
2.	Filed with the company's Annual Report on Form 10-K for the year ended December 31, 1988, and incorporated herein by reference.
3.	Filed with the company's Annual Report on Form 10-K for the year ended December 31, 1989, and incorporated herein by reference.
4.	Filed with the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1991, and incorporated herein by reference.
5.	Filed with the company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1992, and incorporated herein by reference.
6.	Filed with the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1992, and incorporated herein by reference.
7.	Filed with the company's Current Report on Form 8-K filed on April 28, 1993, and incorporated herein by reference.
8.	Filed with the company's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference.
9.	Filed with the company's Annual Report on Form 10-K for the year ended December 31, 1994, and incorporated herein by reference.
10.	Filed with the company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, and incorporated herein by reference.
11.	Filed with the company's Annual report on Form 10-K for the year ended December 31, 1997, and incorporated herein by reference.

AMENDED MAY 5, 1998

AMENDED FEBRUARY 15, 1999

AMENDED AND RESTATED BY-LAWS
STEPAN COMPANY
A DELAWARE CORPORATION

ARTICLE I

OFFICES

The registered office of the Corporation in the State of Delaware shall be in the City of Wilmington, County of New Castle, and the name of the resident agent in charge thereof shall be The Corporation Trust Company. The Corporation may have such other offices, either within or without the State of Delaware, as the business of the Corporation may require from time to time.

ARTICLE II

STOCKHOLDERS

SECTION 1. Annual Meeting. The annual meeting of the stockholders for each year shall be held on such date and at such time as the Board of Directors shall determine from time to time. At such meeting the stockholders entitled to vote shall elect Directors, and transact such other business as may properly be brought before the meeting. If the election of Directors shall not be held on the day designated herein for any annual meeting, or at any adjournment thereof, the Board of Directors shall cause the election to be held at a special meeting of the stockholders as soon thereafter as conveniently may be.

SECTION 2. Special Meetings. Special meetings of the stockholders may be called by the Chairman of the Board of Directors, by the Board of Directors, or by the holders of shares of capital stock representing not less than one-third of the voting power of all the outstanding shares of capital stock of the Corporation.

SECTION 3. Place of Meeting. Meetings of the stockholders for the election of Directors and for all other purposes shall be held at the Corporation's Administrative Building in Northfield, Illinois or at such other place within or without the State of Illinois, as the Board of Directors shall designate.

SECTION 4. Advance Notification of Proposals at Stockholders' Meetings. If a stockholder desires to submit a proposal for consideration at an annual or special stockholders' meeting, or to

nominate persons for election as directors at any stockholders' meeting duly called for the election of directors,

written notice of such stockholder's intent to make such a proposal or nomination must be given and received by the Secretary of the Corporation at the principal executive offices of the Corporation either by personal delivery or by United States mail not later than (i) with respect to an annual meeting of stockholders, 90 days prior to the anniversary date of the immediately preceding annual meeting, and (ii) with respect to a special meeting of stockholders, the close of business on the tenth day following the date on which notice of such meeting is first given to stockholders. Each notice shall describe the proposal or nomination in sufficient detail for the proposal or nomination to be summarized on the agenda for the meeting and shall set forth (i) the name and address, as it appears on the books of the Corporation, of the stockholder who intends to make the proposal or nomination; (ii) a representation that the stockholder is a holder of record of stock of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to present such proposal or nomination; and (iii) the class and number of shares of the Corporation which are beneficially owned by the stockholder. In addition, in the case of a stockholder proposal, the notice shall set forth the reasons for conducting such proposed business at the meeting and any material interest of the stockholder in such business. In the case of a nomination of any person for election as a director, the notice shall set forth: (i) the name and address of any person to be nominated; (ii) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder; (iii) such other information regarding such nominee proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission; and (iv) the consent of each nominee to serve as a director of the Corporation if so elected. The presiding officer of the annual or special meeting shall, if the facts warrant, refuse to acknowledge a proposal or nomination not made in compliance with the foregoing procedure, and any such proposal or nomination not properly brought before the meeting shall not be transacted. Nothing contained in this Section shall be deemed to decrease any time period set forth in the Securities Exchange Act of 1934, as amended, or any rule or regulation of the Securities and Exchange Commission thereunder.

SECTION 5. Notice of Stockholders' Meetings. Written or printed notice stating the place, day and hour of the meeting, and, in case of a special meeting, the purpose or purposes for which the meeting is called, shall be given not less than ten (10) nor more than sixty (60) days before the date of the meeting, or, in case of a merger or consolidation, not less than twenty (20) nor more than sixty (60) days before the date of the meeting, either personally or by mail, by or at the direction of the Chairman of the Board, the President, the Secretary, or the persons calling the meeting, to each stockholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be given when deposited in the United States mail and addressed to the stockholder at his address as it appears on the records of the Corporation, with postage thereon prepaid.

SECTION 6. Closing of Transfer Books and Fixing Record Date. The Board of Directors or the Executive Committee shall have power to close the stock transfer books of the Corporation for a period which shall not be more than sixty (60) nor less than ten (10) days preceding the date of any meeting of stockholders, or the date for payment of any dividend, or the date for the allotment of rights, or the date when any change or conversion or exchange of capital stock shall go into effect, or a date in connection with obtaining the consent of stockholders for any purpose, or a date for the purpose of any other lawful action. In lieu of closing the stock transfer books as aforesaid, the Board of Directors or Executive Committee may fix in advance a date, which shall not be more than sixty (60) nor less than ten (10) days preceding the date of any meeting of stockholders, or the date for the payment of any dividend, or the date for the allotment of rights, or the date when any change or conversion or exchange of capital stock shall go into effect, or a date in connection with obtaining the consent of stockholders for any purpose, or a date for the purpose of any other lawful action, as a record date for the determination of stockholders entitled to notice of, and to vote at, any such meeting and any adjournment thereof, or entitled to receive payment of any such dividend, or to any such allotment of rights, or to exercise the rights in respect of any such change, conversion or exchange of capital stock, or to give such consent, or to take such lawful action, and in such case such stockholders, and only such stockholders, as shall be stockholders of record on the date so fixed shall be entitled to such notice of, and to vote at, such meeting and any adjournment thereof, or to receive payment of such dividend, or to receive such allotment of rights, or to exercise such rights, or to give

such consent, or to take such lawful action, as the case may be, notwithstanding any transfer of any stock on the books of the Corporation after any such record date fixed as aforesaid.

SECTION 7. Voting Lists. The office or agent having charge of the stock ledgers of the Corporation shall prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at said meeting of stockholders, arranged by class and series of capital stock in alphabetical order within each series or class, and showing the address of each stockholder and the number of shares of such series or class registered in the name of each stockholder. Such list shall be open to the examination of any stockholder for any purpose germane to the meeting during ordinary business hours, for a period of at least ten (10) days prior to the meeting of stockholders, either at a place within the city, town or village where the meeting of stockholders is to be held, and which place shall be specified in the notice of the meeting, or, if not so specified, at the place where said meeting is to be held, and the list shall also be produced and kept at the time and place of the meeting of stockholders during the whole time thereof, and may be inspected by any stockholder who is present thereat. The original or duplicate share ledger or transfer book shall be the only evidence as to who are the stockholders entitled to examine such list or share ledgers or transfer books or to vote at any meeting of stockholders.

SECTION 8. Quorum and Voting. Holders of shares representing a majority of the voting power of the outstanding shares of capital stock of the Corporation entitled to vote at said meeting represented in person or by proxy, shall constitute a quorum at any meeting of stockholders, except as otherwise provided by law, the Certificate of Incorporation, or these by-laws. If a quorum is present, (1) in all matters other than the election of directors, the affirmative vote of holders of shares having a majority of the voting power of the shares of capital stock present in person or represented by proxy at the meeting and entitled to vote on the subject matter shall be the act of the stockholders, unless the vote of a greater number is required by statute or by the Certificate of Incorporation, and (2) directors shall be elected by a plurality of the voting power of the shares of capital stock present in person or represented by proxy at the meeting and entitled to vote on the election of directors. If shares representing less than a majority of the voting power of the outstanding shares of capital stock of the Corporation are represented at a meeting of stockholders, shares with a majority

of the voting power of the shares so represented may adjourn the meeting from time to time without further notice.

SECTION 9. Voting of Shares. At each meeting of the stockholders, each holder of capital stock, which shall, at the time, possess voting powers, shall be entitled to vote, in person or by proxy, and shall have the number of votes provided by the Certificate of Incorporation, any applicable Certificate of Designation or as otherwise required by law for each such share of capital stock registered in his name on the date the stock transfer books were closed preceding such meeting for the purpose of determining stockholders entitled to vote at said meeting, or on the record date fixed for the purpose of determining stockholders entitled to vote at such meeting or, in the event that the stock transfer books shall not be so closed or a record date so fixed, on the date next preceding the date notice of such meeting was given; provided, however, that, except where the stock transfer books shall have been so closed, or a record date shall have been so fixed, no share of stock shall be voted on at any election for Directors, which shall have been transferred on the books of the Corporation within twenty days next preceding such election of Directors, and no proxy shall be voted or acted upon after three years from its date unless such proxy provides for a longer period. The vote for Directors and, upon the demand of any stockholder entitled to vote, the vote upon any question before any stockholders' meeting, shall be by ballot.

SECTION 10. Voting of Shares of Certain Holders. Shares standing in the name of another corporation, domestic or foreign, may be voted by such officer, agent, or proxy as the by-laws of such corporation may prescribe, or, in the absence of such provision, as the Board of Directors of such corporation may determine.

Shares standing in the name of a deceased person may be voted by his administrator or executor, either in person or by proxy. Shares standing in the name of a guardian, conservator, or trustee may be voted by such fiduciary, either in person or by proxy .

A stockholder whose shares are pledged shall be entitled to vote such shares until the shares have been transferred into the name of the pledgee, and thereafter the pledgee shall be entitled to vote the shares so transferred.

ARTICLE III

DIRECTORS

SECTION 1. General Powers. The property, business and affairs of the Corporation shall be managed by its Board of Directors.

SECTION 2. Number and Tenure. The number of Directors shall be seven but the number of Directors may, from time to time, be altered by amendment of these by-laws. The Directors shall serve staggered three year terms. The Directors shall be classified in respect to the time for which they shall severally hold office, into three classes, each class to consist of one-third (1/3) in number of the Directors as near as may be. At each annual election, the successors to the class of Directors whose term expires in that year shall be elected for the term of three years. The Directors shall be elected by the stockholders at the stockholders' annual meeting, except as provided in Section 5 of this Article III, and each Director elected shall hold office until his successor is duly elected and qualified.

SECTION 3. Place of Meetings; Records. The Directors may hold their meeting and have one or more offices and keep the books of the Corporation (except the original or duplicate stock ledger) outside the State of Delaware at such place or places as they may from time to time determine.

SECTION 4. General Powers. In addition to the powers and duties by these by-laws expressly conferred upon them, the Board of Directors may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute, or by the Certificate of Incorporation, or by these by-laws directed or required to be exercised or done by the stockholders.

SECTION 5. Vacancies. Except as otherwise provided by law, a vacancy in the office of any Director, because of death, resignation, or otherwise, and newly created directorships resulting from any increase in the authorized number of Directors, may be filled by the vote of a majority of the remaining Directors, though less than a quorum, and the Directors so chosen shall hold office until the next annual meeting of the stockholders and until their successors shall be duly elected and qualified.

SECTION 6. Regular Meetings. A regular annual meeting of the Board of Directors shall be held as close in time after the annual meeting of stockholders as is convenient. In addition, the Board of Directors

shall hold at least three other regular meetings in each year. Notice of all regular meetings shall be given as provided in Section 8 of this Article and such meetings shall be held at such place, either within or without the State of Delaware, as may be designated in such notice. All regular meetings shall be called by or at the request of the Chairman or the President.

SECTION 7. Special Meetings. Special meetings of the Board of Directors may be called by or at the request of the Chairman, the President, or any two Directors. The person or persons authorized to call special meetings of the Board of Directors may fix any place, either within or without the State of Delaware, as the place for holding any special meeting of the Board of Directors called by them.

SECTION 8. Notice. Notice of any regular meeting shall be given at least three days previously thereto and notice of any special meeting shall be given at least ten days previously thereto. Such notice shall be in writing and shall be given personally or mailed or telegraphed or telexed to each Director at his business address or at such other address as he shall specify to the Secretary. If mailed, such notice shall be deemed to be given when deposited in the United States mail in a sealed envelope so addressed, with postage thereon prepaid. If notice be given by telegram, such notice shall be deemed to be given when the telegram is delivered to the telegraph company. If notice be given by telex, such notice shall be deemed to be given when transmitted. Any Director may waive notice of any meeting. The attendance of a Director at any meeting shall constitute a waiver of notice of such meeting, except where a Director attends a meeting for the express purpose of objecting, at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors need be specified in the notice or waiver of notice of such meeting.

SECTION 9. Quorum. A majority of the Board of Directors shall constitute a quorum for the transaction of business at any meeting of the Board of Directors (provided, however, that if the Board of Directors shall have fewer than three (3) members, a quorum shall consist of two (2) of such members), provided that, if less than a quorum of the Directors are present at said meeting, a majority of the Directors present may adjourn the meeting from time to time without further notice.

SECTION 10. Manner of Acting. Except where otherwise provided in these by-laws, the act of the majority of the Directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

SECTION 11. Compensation. Directors regularly in the employ of the Corporation shall not receive compensation for their services as Directors or as members of any committee of the Board of Directors on which they serve. Directors not regularly in the employ of the Corporation shall be paid reasonable compensation for services as directors and as members of any committee of the Board of Directors on which such Directors serve, which shall be fixed by resolution of the Board of Directors. Directors shall be reimbursed for reasonable expenses incurred in attending meetings of the Board of Directors and meetings of committees appointed by the Board of Directors. Nothing herein contained shall be construed to preclude any Director from serving the Corporation in any other capacity and receiving compensation therefor.

ARTICLE IV

COMMITTEES

SECTION 1. Executive Committee. (a) The Board of Directors of the Corporation at any regular or special meeting called for such purpose may (in its discretion), by resolution adopted by a majority of the whole Board, designate three (3) or more Directors, two of whom shall be the Chairman of the Board and the President of the Corporation, to constitute an Executive Committee. Vacancies in the Executive Committee may be filled by the Board of Directors. Each member of the Executive Committee shall hold office until his successor shall have been duly elected, or until his death, or until he shall resign or shall have been removed from the Executive Committee by the Board, or shall cease to be a Director. Any member of the Executive Committee may be removed by resolution adopted by a majority of the whole Board of Directors whenever in its judgment the best interests of the Corporation would be served thereby. The compensation, if any, of members of the Executive Committee shall be established by resolution of the Board of Directors.

(b) The Executive Committee shall have and may exercise all of the authority of the Board of Directors in the management of the

Corporation, provided such committee shall not have the authority of the Board of Directors in reference to amending the Certificate of Incorporation, adopting a plan of merger or consolidation, recommending to the stockholders the sale, lease or exchange of all or substantially all of the property and assets of the Corporation, recommending to the stockholders a dissolution of the Corporation or a revocation thereof or amending the by-laws of the Corporation. The Executive Committee shall have the power to authorize the seal of the Corporation to be affixed to all papers which may require it. The Secretary of the Corporation shall act as Secretary to the Executive Committee and keep full and complete minutes of its meetings. Minutes of all meetings of the Executive Committee shall be transmitted to the Directors of the Corporation as soon as possible after such meetings but in no event later than the meeting of the Board following the meeting of the Executive Committee. The minute books of the Executive Committee shall at all times be open to the inspection of any Director.

(c) The Executive Committee shall meet at the call of the President, or of any two members of the Executive Committee. A majority of the members of the Executive Committee shall constitute a quorum for the transaction of business (provided, however, that if the Executive Committee shall have fewer than three (3) members, a quorum shall consist of two (2) of such members) and the act of a majority of those present shall constitute the act of the Committee.

SECTION 2. Audit Committee. (a) The Board of Directors of the Corporation at any regular or special meeting shall, by resolution adopted by a majority of the whole Board, designate three or more independent directors to constitute an Audit Committee and appoint one of the directors so designated as the chairman of the Audit Committee. Membership on the Audit Committee shall be restricted to those Directors who are independent of the management of the Corporation and are free from any relationship that, in the opinion of the Corporation's Board of Directors, would interfere with the exercise of the independent judgment as a member of the committee. Vacancies in the committee may be filled by the Board of Directors. Each member of the committee shall hold office until his successor shall have been duly elected, or until his death, or until he shall resign or shall have been removed from the Audit Committee by the Board, or shall cease to be a Director. Any member of the Audit Committee may be removed from the committee by resolution adopted by a majority of the whole Board of Directors whenever in

its judgment (1) such person is no longer an independent Director or free from any relationship with the Corporation or any of its officers prohibited by this section, or (2) the best interests of the Corporation would be served thereby. The compensation, if any, of members of the committee shall be established by resolution of the Board of Directors.

(b) The Audit Committee shall be responsible for recommending to the Board of Directors the appointment or discharge of independent auditors; reviewing with management and the independent auditors the terms of engagement of independent auditors, including the fees, scope and timing of the audit and any other services rendered by such independent auditors; reviewing with independent auditors and management the Corporation's policies and procedures with respect to internal auditing, accounting and financial controls, and dissemination of financial information; reviewing with management, the independent auditors and the internal auditors, the Corporation's financial statements, audit results and reports and the recommendations made by the auditors with respect to changes in accounting procedures and internal controls; reviewing the results of studies of the Corporation's system of internal accounting controls; and performing any other duties or functions deemed appropriate by the Board of Directors. The committee shall have such powers and rights as may be necessary or desirable to fulfill these responsibilities including, the power and right to consult with legal counsel and to rely upon the opinion of such legal counsel. The Audit Committee is authorized to communicate directly with the Corporation's financial officers and employees, internal auditors and independent auditors on such matters as it deems desirable and to have the internal auditors and independent auditors perform such additional procedures as it deems appropriate. The Audit Committee shall periodically report to the Board of Directors on its activities.

(c) Minutes of all meetings of the Audit Committee shall be submitted to the Board of Directors of the Corporation. The minute book of the committee shall at all times be open to the inspection of any Director.

(d) The Audit Committee shall meet at the call of its chairman or any two members of the committee. A majority of the members of the Audit Committee shall constitute a quorum for the transaction of business (provided, however, that if the Audit Committee shall have fewer than three (3) members, a quorum shall consist of two (2) of such members) and the act of a majority of those present shall constitute the act of the committee.

SECTION 3. Compensation and Development Committee. (a) The Board of Directors of the Corporation at any regular or special meeting shall, by resolution adopted by a majority of the whole Board, designate three or more Directors to constitute a Compensation and Development Committee and appoint one of the Directors so designated as the chairman of the Compensation and Development Committee. Membership on the Compensation and Development Committee shall be restricted to disinterested persons which for this purpose shall mean any Director, who, during the time he is a member of the Compensation and Development Committee is not eligible, and has not at any time within one year prior thereto been eligible, for selection to participate in any of the compensation plans administered by the Compensation and Development Committee. Vacancies in the committee may be filled at any meeting of the Board of Directors. Each member of the committee shall hold office until his successor shall have been duly elected, or until his death or resignation, or until he shall have been removed from the committee by the Board of Directors, or until he shall cease to be a Director or a disinterested person. Any member of the Compensation and Development Committee may be removed by resolution adopted by a majority of the whole Board of Directors whenever in its judgment the best interests of the Corporation would be served thereby. The Compensation and Development Committee shall meet at the call of its chairman or any two members of the committee. A majority of the members of the Compensation and Development Committee shall constitute a quorum (provided, however, that if the Compensation and Development Committee shall have fewer than three (3) members, a quorum shall consist of two (2) of such members) and an act of the majority of those present shall constitute the act of the Compensation and Development Committee. The compensation, if any, of members of the committee shall be established by resolution of the Board of Directors.

(b) The Compensation and Development Committee shall administer the Corporation's stock option and incentive compensation plans and all other plans which by their terms provide for administration by the Compensation and Development Committee. The Compensation and Development Committee shall have the power and authority vested in it by any plan of the Corporation which the committee administers. The Compensation and Development Committee shall from time to time recommend to the Board of Directors the compensation of the officers of the Corporation. The Compensation and Development Committee shall also make recommendations to the Board of Directors with regard to the

compensation of members of the Board of Directors and its committees except the Compensation and Development Committee.

SECTION 4. Nominating Committee. (a) The Board of Directors of the Corporation at any regular or special meeting may, by resolution adopted by a majority of the whole Board, designate three or more directors to constitute a Nominating Committee and appoint one of the Directors so designated as the chairman of the Nominating Committee. The majority of the members of the Nominating Committee shall be persons who are not, during the time they are members of the Nominating Committee, either officers or employees of the Corporation. Vacancies in the committee may be filled by the Board of Directors. Each member of the committee shall hold office until his successor shall have been duly elected, or until his death or resignation, or until he shall have been removed from the committee by the Board of Directors, or until he shall cease to be a Director. Any member of the Nominating Committee may be removed by resolution of the whole Board of Directors whenever in its judgment the best interests of the Corporation would be served thereby. The Nominating Committee shall meet at the call of its chairman or any two members of the committee. A majority of the members of the Nominating Committee shall constitute a quorum (provided, however, that if the Nominating Committee shall have fewer than three (3) members, a quorum shall consist of two (2) of such members) and an act of the majority of those present shall constitute the act of the Nominating Committee. The compensation, if any, of members of the committee shall be established by resolution of the Board of Directors.

(b) Before the annual meeting of the stockholders of the Corporation, and before any special meeting of stockholders at which Directors are to be elected, the Nominating Committee shall recommend to the Board of Directors the names of individuals for submission to the stockholders in the Corporation's proxy material as the Board's nominees for election as Directors of the Corporation for which the Board is soliciting proxies. From time to time, the Nominating Committee shall make recommendations to the Board of nominees to fill vacancies on the Board of Directors as they occur. The Nominating Committee shall also, from time to time, consider and make recommendations to the Board with regard to increases or decreases in the size of the Board.

(c) Nothing in this by-law is intended to prevent any individual Director from making a recommendation of a person to be a Director of the Corporation either to the Nominating Committee or to the Board.

SECTION 5. Additional Committees. The Board of Directors may, by resolution adopted by a majority of the whole Board, from time to time create and appoint such committees in addition to the Executive, Audit, Compensation and Development, and Nominating Committees as it deems desirable. Each additional committee shall bear such designation,

shall have such powers, and shall perform such duties, not inconsistent with these by-laws or with law, as may be assigned to it by the Board of Directors; provided that no such additional committee may exercise the powers of the Board of Directors in the management of the business and affairs of the Corporation except such as shall be expressly delegated to it. The Board of Directors shall have the power to change the members of any such additional committee at any time, to fill vacancies, and to discharge any such additional committee at any time. The compensation, if any, of members of any such committee shall be established by resolution of the Board of Directors. A majority of the members of any such committee shall constitute a quorum for the transaction of business (provided, however, that if such committee shall have fewer than three (3) members, a quorum shall consist of two (2) of such members) and the act of a majority of those present shall constitute the act of such committee.

ARTICLE V

OFFICERS

SECTION 1. Number. The officers of the Corporation shall be a Chairman of the Board, President, one or more Vice-Presidents (the number thereof to be determined by the Board of Directors), a Treasurer, a Secretary, a Controller, and such Assistant Treasurers, Assistant Secretaries, and other officers as shall be elected or appointed by the Board of Directors. More than one office may be held by the same individual.

SECTION 2. Election and Term of office. The officers of the Corporation shall be elected annually by the Board of Directors at the first meeting of the Board of Directors held after each annual meeting of stockholders. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as conveniently may be. Each officer shall hold office until his successor shall have been duly elected and shall have qualified or until his death or until he shall resign or shall have been removed in the manner hereinafter provided.

SECTION 3. Removal. Any officer or agent elected or appointed by the Board of Directors may be removed by the Board of Directors whenever in its judgment the best interests of the Corporation would be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so

removed. Election or appointment of an officer or agent shall not of itself create contract rights.

SECTION 4. Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or otherwise, may be filled by the Board of Directors for the unexpired portion of the term, and new offices may be created and filled by the Board of Directors.

SECTION 5. Chairman of the Board. The Chairman of the Board of Directors shall be the chief executive officer of the corporation. He shall, subject to the provisions of these by-laws and to the direction of the Board of Directors, have general supervision and control over the business affairs and properties of the corporation and of the activities of its several officers. He may delegate to any officer, agent or employee of the corporation such of his duties and authority as in his judgment is in the best interests of the corporation or is necessary for the conduct of its affairs. The Chairman of the Board shall preside at all meetings of the stockholders and of the Board of Directors, and shall see that all orders and resolutions adopted by such bodies are carried into effect.

SECTION 6. President. The President shall be the chief operating officer of the corporation and, subject to the direction of the Board of Directors and of the Chairman of the Board of Directors, shall have general charge of all operating divisions and subsidiaries of the corporation and of such related staff functions as the Chairman of the Board shall designate from time to time. In the absence or disability of the Chairman of the Board, the President shall preside at all meetings of the stockholders and of the Board of Directors.

SECTION 7. The Chairman of the Board of Directors and the President shall each be empowered to sign, with the Secretary or any other proper officer of the corporation thereunto authorized by the Board of Directors, certificates for shares of stock of the corporation and they each shall have general power to execute deeds, mortgages, bonds, contracts and other instruments, except in cases where the signing and execution thereof shall be expressly delegated by the Board of Directors or by these by-laws to some other officer or agent of the Corporation.

SECTION 8. The Vice Presidents. The Vice Presidents shall have such duties and powers as shall be designated from time to time by the Board of Directors or by the Chairman of the Board of

Directors. They may be given additional title designations descriptive of their general duties. In the absence of the President, or in the event of his inability or his refusal to act, the Board of Directors shall assign to any Vice President the duty of acting for the President, and such Vice President shall have all the powers of the President and be subject to all the restrictions upon the President. Any Vice President may sign, with the Secretary or an Assistant Secretary, certificates for shares of the Corporation.

SECTION 9. The Treasurer. The Treasurer, together with such other officers of the Corporation as may be designated by the Board of Directors, shall deposit all moneys and other valuable effects of the Corporation in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors, and shall disburse funds of the Corporation, taking proper vouchers for such disbursements. In general, the Treasurer shall perform the duties usually incident to the office of treasurer, and such other duties as may from time to time be assigned to him by the Board of Directors, the Chairman of the Board, the President, or by such Vice President as shall be designated as the chief financial officer of the Corporation.

SECTION 10. The Secretary. The Secretary shall: (a) keep the minutes of all meetings of the stockholders, the Board of Directors, and the Executive Committee in one or more books provided for that purpose, and shall perform like duties for other committees of the Board when requested by such committees; (b) see that all notices are duly given in accordance with the provisions of these by-laws or as required by law; (c) be custodian of the corporate records and of the seal of the Corporation and see that the seal of the Corporation is affixed to all certificates for shares prior to the issue thereof and to all documents, the execution of which on behalf of the Corporation under its seal is duly authorized in accordance with the provisions of these by-laws; (d) keep a register of the post office address of each stockholder; (e) sign with the Chairman of the Board of Directors, the President, or a Vice President, certificates for shares of the Corporation, the issue of which shall have been authorized by resolution of the Board of Directors; (f) have general charge of the stock transfer books of the Corporation; and (g) in general, perform all duties incident to the office of secretary and such other duties as from time to time may be assigned to him by the Board of Directors, the Chairman of the Board, or by the President.

SECTION 11. The Controller. The Controller shall maintain adequate records of all assets, liabilities and other financial transactions of the Corporation and, in general, shall perform all duties incident to the office of Controller and such other duties as from time to time may

be assigned to him by the Board of Directors, the Chairman of the Board, the President, or the Vice President-Finance.

SECTION 12. Assistant Treasurers and Assistant Secretaries. The Assistant Secretaries as thereunto authorized by the Board of Directors may sign with the Chairman of the Board of Directors, the President or a Vice President certificates for shares of the Corporation, the issue of which shall have been authorized by a resolution of the Board of Directors. The Assistant Treasurers and Assistant Secretaries, in general, shall perform such duties as shall be assigned to them by the Vice President-Finance, the Treasurer, or the Secretary, respectively.

SECTION 13. Salaries. The salaries of the officers shall be fixed from time to time by the Board of Directors.

ARTICLE VI

CONTRACTS, LOANS, CHECKS AND DEPOSITS

SECTION 1. Contracts. The Board of Directors may authorize any officer or officers, agent or agents, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances. However, each of the Chairman of the Board, President, and any Senior Vice President of the Corporation, and any of them, are specifically empowered to execute the following documents or instruments in the ordinary course of business by and on behalf of the Corporation.

(a) Powers of attorney appointing persons, firms or corporations as attorney-in-fact of the Corporation, which powers of attorney may be necessary or appropriate in connection with the import or export of goods by or for the Corporation.

(b) Deeds or other instruments or conveyance conveying real property or interests therein to or from the Corporation if such real property or interests therein have a value or purchase price not in excess of \$500,000.

(c) Leases pursuant to which the Corporation leases, as lessor or lessee, property (real, personal or mixed) if such leases call for the payment by or to the Corporation of rental in the amount of not more than \$100,000 per year.

(d) Any and all other written agreements, documents or instruments deemed necessary or appropriate to the conduct of the business of the Corporation in the ordinary course, and within the ordinary or customary duties of the Vice President executing the same.

SECTION 2. Loans. No loans shall be contracted on behalf of the Corporation and no evidences of indebtedness shall be issued in its name unless authorized by a resolution of the Board of Directors. Such authority may be general or confined to specific instances. However, each of the Chairman of the Board, the President, the Vice President-Finance, and the Treasurer of the Corporation, and any of them, is authorized to borrow funds in the ordinary course of business and to execute the necessary related documents or instruments by and on behalf of the Corporation:

(a) up to the maximum amount provided in any agreement previously approved by the Board of Directors;

(b) or up to a maximum of \$500,000 on open account, under a line of credit, or under an agreement not previously authorized by the Board of Directors.

SECTION 3. Checks, Drafts, etc. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation, shall be signed by such officer or officers, agent or agents of the Corporation and in such manner as shall from time to time be determined by resolution of the Board of Directors.

SECTION 4. Deposits. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies or other depositories as the Board of Directors may select.

ARTICLE VII

CERTIFICATES FOR SHARES AND THEIR TRANSFER

SECTION 1. Certificates representing shares of stock of the Corporation shall be in such form as may be determined from time to time by the Board of Directors or by the Executive Committee. Every holder of stock in the Corporation shall be entitled to have a certificate signed by, or in the name of the Corporation by, the Chairman of the Board of Directors, the President, or a

Vice-President and the Secretary or an Assistant Secretary of the Corporation, certifying the number of shares owned by him in the Corporation. If the Corporation shall be authorized to issue more than one class of stock or more than one series of any class, designations, preferences and relative, participating, optional and other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions on such preferences and rights shall be set forth in full or summarized on the face or back of the certificate which the Corporation shall issue to represent such class or series of stock; provided, however, that, to the full extent allowed by law, in lieu of the foregoing requirements, there may be set forth on the face or back of the certificate which the Corporation shall issue to represent such class or series of stock, a statement that the Corporation will furnish without charge to each stockholder who so requests the designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and rights. If such certificate is countersigned (1) by a transfer agent other than the Corporation or its employee or (2) by a registrar other than the Corporation or its employee, any other signature on the certificate may be a facsimile. In case any person who has signed or whose facsimile signature has been placed upon any such certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue. All certificates for shares in the Corporation of the same class and series shall be consecutively numbered. The name of the person owning the shares of stock represented thereby with the number of shares and date of issue shall be entered on the books of the Corporation. All certificates surrendered to the Corporation for transfer shall be cancelled and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and cancelled, except that in the case of a lost, destroyed or mutilated certificate, a new one may be issued therefore upon such terms and indemnity to the Corporation as the Board of Directors may prescribe.

SECTION 2. Transfers of shares of stock of the Corporation shall be made on the books of the Corporation only by the person named in the certificates evidencing such shares of stock or his successor or assignee, or by such person's attorney lawfully constituted in writing, and upon surrender of such certificates

and delivery to the Corporation of proper evidence of succession, assignment or other authority, to transfer.

SECTION 3. The Corporation shall be entitled to treat the holder of record of any share or shares of stock as the holder in fact thereof and, accordingly, shall not be bound to recognize any equitable or other claim to, or interest in, such share or shares on the part of any other person, whether or not the Corporation shall have express or other notice thereof, save as expressly provided by the laws of the State of Delaware.

SECTION 4. The Board of Directors or the Executive Committee may from time to time appoint a Transfer Agent and Registrar in one or more cities, may require all certificates evidencing shares of stock of the Corporation to bear the signatures of a Transfer Agent or Registrar, and may provide that such certificates shall be transferable in more than one city.

SECTION 5. The Board of Directors may authorize the Transfer Agent and Registrars of the Corporation to issue and register, respectively, new certificates in place of any certificates alleged to have been lost, stolen or destroyed, and in its discretion and as a condition precedent to the issuance thereof, may prescribe such terms and conditions as it deems expedient, and may require such indemnities as it deems necessary to protect the Corporation and said Transfer Agents and Registrars.

ARTICLE VIII

FISCAL YEAR

The fiscal year of the Corporation shall begin on the first day of January and end on the thirty-first day of December in each year.

ARTICLE IX

DIVIDENDS

Dividends on the capital stock of the Corporation may be declared by the Board of Directors at any meeting, regular or special, pursuant to law and to the provisions of the Corporation's certificate of incorporation.

ARTICLE X

INDEMNIFICATION OF OFFICERS AND DIRECTORS

SECTION 1. The Corporation shall indemnify, in accordance with and to the full extent now or hereafter permitted by law, any person who was a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (including, without limitation, an action by or in the right of the Corporation), by reason of his acting as a director or officer of the Corporation (and the Corporation, in the discretion of the Board of Directors, may so indemnify a person by reason of the fact that he is or was an employee of the Corporation or is and was serving at the request of the Corporation in any other capacity for or on behalf of the Corporation) against any liability or expense actually and reasonably incurred by such person in respect thereof. Such indemnification is not exclusive of any other right to indemnification provided by law or otherwise. The right to indemnification conferred by this Section shall be deemed to be a contract between the Corporation and each person referred to herein.

SECTION 2. The indemnification provided by this Article shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any by-law, agreement, vote of stockholders or disinterested Directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a Director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such person.

SECTION 3. The Corporation may purchase and maintain insurance on behalf of any person who is or was a Director, officer, employee or agent of the corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not he would be entitled to indemnity against such liability under the provisions of this Article.

SECTION 4. No amendment to or repeal of these provisions shall apply to or have any effect on the liability or alleged liability of any person for or with respect to any acts or omissions of such person occurring prior to such amendment.

ARTICLE XI

WAIVER OF NOTICE

Whenever any notice whatever is required to be given under the provisions of these by-laws or under the provisions of the Certificate of Incorporation or under the provisions of law, waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice.

ARTICLE XII

CORPORATE SEAL

The corporate seal shall have inscribed thereon the name of the Corporation, the year of its organization and the words "Corporate Seal, Delaware". The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced otherwise.

ARTICLE XIII

SEVERABILITY OF PROVISIONS

If any provision of these by-laws, or the application thereof to any person or circumstances, is held invalid, the remainder of these by-laws, and the application of such provision to other persons or circumstances, shall not be affected thereby.

ARTICLE XIV

AMENDMENTS

These by-laws may be altered, amended or repealed and new by-laws may be adopted by the Board of Directors.

=====
STEPAN COMPANY

\$30,000,000 6.59% Promissory Notes,
Due October 1, 2013

LOAN AGREEMENT

Dated as of October 1, 1998
=====

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(not part of Agreement)

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Description of Properties,
Subsidiaries, Pending Litigation, etc.
(Exhibit B to Loan Agreement)
Legal Proceedings
(Exhibit C to Loan Agreement)

STEPAN COMPANY
Edens at Winnetka Avenue
Northfield, Illinois 60093

LOAN AGREEMENT

Dated as of October 1, 1998

To the Institution Listed
on Schedule I Attached Hereto
Which is a Signatory to This
Agreement

Ladies and Gentlemen:

The undersigned, Stepan Company, a Delaware corporation (herein called the "Company"), agrees with you as follows:

Section 1. The Notes and Commitment.

(A) Authorization and Description of Notes. The Company proposes to authorize borrowings in the aggregate principal amount of \$30,000,000, such borrowings to be evidenced by the 6.59% Promissory Notes of the Company (the "Notes"), to be dated as of the date of issue, to bear interest from such date at the rate of 6.59% per annum payable semi-annually on the first day of each April and October in each year (commencing on the first of such dates after the date hereof), to be expressed to mature on October 1, 2013 and to have the other terms and provisions and to be substantially in the form attached to this agreement as Exhibit A. The term "Notes" as used in this agreement shall include each promissory note delivered under this agreement and the other agreements referred to in paragraph (C) of this section 1, and each promissory note delivered in substitution or exchange for any such promissory note, and, where applicable, shall include the singular number as well as the plural. The term "Note" shall mean one of the Notes. Each term defined in Exhibit A shall have such defined meaning for the purpose of this agreement unless this agreement otherwise requires.

(B) The Loans and Closing Date. Subject to the terms and conditions of this agreement and on the basis of the representations and warranties hereinafter set forth, the Company hereby agrees to borrow from you, and you hereby agree to lend to the Company, on October 1, 1998, or such other date as shall be mutually agreed upon (the "Closing Date"), the aggregate principal amounts to be evidenced by Notes as set forth opposite your name on Schedule I. The loans will be made at the offices of Chapman and Cutler, 111 W. Monroe Street, Chicago, Illinois 60603, at 11:00 A.M. Chicago time on the Closing Date in Federal or other funds current and immediately available at The First National Bank of Chicago (ABA No. 071000013), One First National Plaza, Chicago, Illinois 60670, against delivery of Notes in the aggregate principal amount of the loans then scheduled to be made by you.

The Notes to be delivered to you on the Closing Date will be in the form of one Note in the aggregate principal amount of the loan specified to be made by you on the Closing Date, registered in your name or in the name of such nominee all as you may specify at any time prior to the date fixed for delivery.

(C) Other Agreements. Simultaneously with the execution and delivery of this agreement, the Company is entering into substantially identical agreements with the other lenders listed on Schedule I under which such other lenders agree to lend to the Company the principal amounts set opposite such lenders' names in Schedule I and your obligations and the obligations of the Company hereunder are subject to the execution and delivery of substantially identical agreements by the other lenders. The obligations of each lender shall be several and not joint and no lender shall be liable or responsible for the acts of any other.

Section 2. Representations and Warranties.

The Company represents and warrants that:

(A) Financial Statements. The consolidated balance sheets of the Company and its subsidiaries for the last five fiscal years of the Company ending December 31, 1997, and the consolidated statements of income and changes in financial position or cash flows of the Company and its subsidiaries for such fiscal years, including in each case the related schedules and notes, all accompanied by the opinion of Arthur Andersen & Co., independent certified public accountants, and the consolidated balance sheet of the Company and its subsidiaries for the fiscal quarter of the Company ending June 30, 1998, and the consolidated statements of income and cash flows of the Company and its subsidiaries for such three month period, copies of all of which balance sheets and statements have heretofore been delivered to you, were prepared in accordance with good accounting practice consistently applied throughout the periods involved, are correct and complete and fairly present the financial position and results of operations of the Company and its subsidiaries for each such fiscal year and, subject to year end audit, for such quarterly fiscal period. There has been no change in the financial condition of the Company and its subsidiaries as shown on its latest audited consolidated balance sheet, other than changes in the ordinary course of business which have not, in the aggregate, been materially adverse.

(B) Business. You have heretofore been furnished with copies of (x) the annual report as filed with the Securities and Exchange Commission on Form 10-K for year ended December 31, 1997 (the "10-K") which generally sets forth the business conducted and proposed to be conducted by the Company and its subsidiaries and (y) the quarterly report as filed with the Securities and Exchange Commission on Form 10-Q for the quarterly fiscal period ended June 30, 1998 (the "10-Q").

(C) Properties and Subsidiaries. Exhibit B to this agreement correctly sets forth (1) a brief description of the properties (including material leaseholds) of the Company, (2) the jurisdiction or jurisdictions in which the Company is incorporated or owns property or conducts its business, and a statement as to whether the Company is

qualified or licensed as a foreign corporation in each jurisdiction, other than the jurisdiction of its incorporation, in which it owns property or conducts business, (3) a list of the subsidiaries of the Company showing in each case the number of shares of stock of each class outstanding and the shares of each class as of the date hereof owned by the Company, and (4) a list of the subsidiaries of the Company which the Company hereby designates as restricted subsidiaries pursuant to paragraph (U) of section 11 of the Notes.

(D) No Material Adverse Changes. Since December 31, 1997 neither the business or operations of the Company or any of its subsidiaries nor the properties or assets of the Company and its subsidiaries, taken as a whole, have been materially and adversely affected in any way as the result of any act or event, including, without limitation: fire, explosion, flood, drought, storm, earthquake, accident or act of God; strike, lockout, combination of workmen or other disturbance; riot, atomic explosion, activity of armed forces or of the public enemy; or embargo, nationalization, condemnation, requisition or taking of property or cancellation or modification of contracts by any domestic or foreign government.

(E) No Pending Material Litigation or Proceedings. Except as disclosed in Exhibit C attached to this agreement, there are no actions, suits or proceedings pending or, to the best knowledge and belief of the Company, 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, which may result in any material adverse change in the business, properties or assets or in the condition, financial or otherwise, of the Company. The Company is not (1) in default with respect to any order, writ, injunction or decree of any court or (2) in default in any material respect under any order, regulation (including but not limited to any environmental regulation), permit, license or demand of any federal, state, municipal or other governmental agency, the consequences of which would materially and adversely affect the business, properties or assets or the condition, financial or otherwise, of the Company.

(F) Valid Organization and Good Standing of the Company. The Company is a duly and validly organized and existing corporation in good standing under the laws of its jurisdiction of incorporation and is duly licensed or qualified and in good standing as a foreign corporation in all other jurisdictions where the ownership or leasing of property or the nature of business transacted makes such qualification necessary, and is entitled to own its properties and assets, and to carry on its business, all as, and in the places where, such properties and assets are now owned or operated or such business is now conducted or presently proposed to be conducted. The Company does not own any real property located outside of its jurisdiction of incorporation or jurisdictions in which it is duly qualified to do business as a foreign corporation and is not doing business outside of such jurisdictions of a character which would require such qualification. The Company has made payment of all franchise and similar taxes in its jurisdiction of incorporation, and in all of the respective jurisdictions in which it is qualified as a foreign corporation, insofar as such taxes are due and payable at the date of this agreement, except for any such taxes the validity of which is

being contested in good faith and for which proper reserves have been set aside on the books of the Company.

(G) Title to Real and Personal Property. The Company has good and marketable fee title to all the real property, and good and marketable title to all other material property and assets, reflected in the consolidated balance sheet as of December 31, 1997, referred to in paragraph (A) above, or purported to have been acquired by the Company subsequent to such date, except property and assets sold or otherwise disposed of subsequent to such date in the ordinary course of business and except for title defects permitted by paragraph (C) of section 9 of the Notes. The real property and other material property and assets of the Company are free from any liens, security interests or other encumbrances securing indebtedness which arose through borrowings and from any other liens, security interests or other encumbrances which are substantial in amount, or which affect or impair the operations of the Company, or which have arisen other than in the ordinary course of the business of the Company, except as may be permitted by paragraph (C) of section 9 of the Notes. No financing statement under the Uniform Commercial Code which names the Company or any of its subsidiaries as debtor has been filed in any jurisdiction, and neither the Company nor any of such subsidiaries has signed any financing statement or any security agreement authorizing any secured party thereunder to file any such financing statement, except as may be permitted by paragraph (C) of section 9 of the Notes.

(H) Patents and Other Rights. The Company possesses all patents, patent rights or licenses, trademark rights, trade names, trade name rights and copyrights which are required to conduct its business as now conducted without known conflict with the rights of others.

(I) No Leases or Title Retention Agreements Affecting Balance Sheet Values; Status of any Other Leases. None of the assets or property the value of which is reflected in the consolidated balance sheet as of December 31, 1997, referred to in paragraph (A) above, 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 \$200,000. The Company enjoys peaceful and undisturbed possession of the premises occupied under all of the leases under which it is operating, none of which contains any unusual or burdensome provisions that will materially affect or impair the operations of the Company. All of such leases are valid, subsisting and in full force and effect.

(J) No Adverse Contracts or Restrictions. The Company is not a party to, or bound by, any contract or agreement or instrument, or subject to any charter or other corporate restriction, materially and adversely affecting its business, property, assets, operations or condition, financial or otherwise.

(K) Transaction Is Legal and Authorized; No Legal Restrictions on Performance. The issuance of the Notes and compliance by the Company with all of the provisions of this agreement and the Notes --

(i) are within the corporate powers of the Company; and

(ii) will, on or prior to the Closing Date, have been duly authorized by proper corporate action on the part of the Company (no action by the stockholders of the Company being required by law, by the corporate charter or by-laws of the Company or otherwise), and the agreement and the Notes will, upon execution and delivery by the Company on the Closing Date, constitute the legal, valid and binding obligations, contracts and agreements of the Company enforceable in accordance with their respective terms.

Neither the execution and delivery of this agreement, the consummation of the transactions contemplated hereby, the fulfillment of its terms, nor compliance with its terms and conditions and with the terms and provisions of the Notes, will conflict with or result in a breach of any of the terms, conditions or provisions of any corporate restriction or of any indenture, mortgage, deed of trust, pledge, bank loan, credit agreement, corporate charter, by-laws or other agreement or instrument to which the Company is now a party or by which it or its properties may be bound or affected, or any judgment, order, writ, injunction, decree or demand of any court or any federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, or constitute a default under any of the foregoing, or result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the Company under the terms or provisions of any of the foregoing. The Company is not in default in the performance, observance or fulfillment of any of the obligations, covenants and conditions contained in any indenture or other agreement creating, evidencing or securing indebtedness of the Company or pursuant to which any such indebtedness is or may be issued, or contained in any other agreement or instrument to which the Company is a party or by which the Company or its properties may be bound or affected.

(L) Compliance with Statutes and Regulations. The Company and its subsidiaries have complied with all applicable statutes and regulations of the United States of America and of all foreign countries having jurisdiction, and of any state, province, municipality, agency or other governmental unit of any thereof, in respect of the conduct of their respective businesses and ownership of their respective properties (including, without limitation, applicable statutes, regulations, orders and restrictions relating to equal employment opportunities and environmental standards or controls). No governmental consents, approvals or authorizations are required to be obtained and no registrations or declarations are required to be filed in connection with the execution and delivery of this agreement and the Notes.

(M) Tax Status. All domestic and foreign tax returns and reports of the Company and its subsidiaries relating to taxes based on or measured by income or

revenues, and all other tax returns and reports of the Company and its subsidiaries, required to be filed have been duly filed. The Company and its subsidiaries have paid or adequately provided for the payment of (i) all taxes shown as due on the returns and reports filed by any of them or pursuant to any assessment received by any of them (and the Company knows of no proposed assessment of additional taxes or any basis therefor) and (ii) all other taxes, assessments, fees and governmental charges upon the Company and its subsidiaries and upon their respective properties, assets, income and franchises, except for such taxes, assessments, fees and charges, if any, which are being contested in good faith and as to which adequate reserves have been provided. The United States income tax liabilities of the Company and its subsidiaries have been finally determined by the Internal Revenue Service and satisfied for all fiscal years up to and including the fiscal year ended December 31, 1994. The Internal Revenue Service has reviewed all of the Federal tax returns of the Company and its subsidiaries for the fiscal years up to and including the fiscal year ending December 31, 1994. All agreed-to adjustments and interest thereon have been paid.

No waiver of the applicable statute of limitations has been given and is in effect with respect to any United States tax return required to be filed by the Company or any of its subsidiaries.

(N) Absence of Foreign or Enemy Status, Investment Company Act and Public Utility Holding Company Act. Neither the issuance of the Notes nor the use of the proceeds of the loans evidenced thereby as contemplated herein will result in a violation of any of the foreign assets control regulations of the United States Treasury Department (31 C.F.R., Subtitle B, Chapter V, as amended), or any ruling issued thereunder or any enabling legislation or Presidential Executive Order in connection therewith. The Company is not an "investment company," or a company "controlled" by an "investment company," within the meaning of the Investment Company Act of 1940, as amended, and neither the Company, nor any of its subsidiaries, is a "holding company" or a "subsidiary company" of a "holding company" or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company," as such terms are defined in the Public Utility Holding Company Act of 1935, as amended.

(O) Federal Reserve Board Regulations. Neither the Company nor any of its subsidiaries owns any "margin stock" as such term is defined in Regulation U of the Board of Governors of the Federal Reserve System (12 CFR Part 221), as amended, except margin stock owned or which may be acquired by the Company or its subsidiaries which does not and would not in the aggregate constitute a substantial part of the consolidated assets of the Company and its subsidiaries within the meaning of Section 221.2 of the aforesaid Regulation U, and the Company will not use, or permit any of its subsidiaries to use, any part of the proceeds from the loan to be made under this agreement, (1) directly or indirectly, to purchase or carry any such stock (except for shares of the Company acquired by the Company in connection with its stock option plans, deferred management compensation plans or other publicly announced stock purchase plans) or to reduce or retire any indebtedness originally incurred to purchase any such stock (except as noted above) within the meaning of such Regulation, (2) so as to involve the Company or any of its

subsidiaries in a violation of Regulation T, U or X of such Board (12 CFR Parts 220, 221 and 224), or (3) for any other purpose not permitted by Section 7 of the Securities Exchange Act of 1934, as amended, or any of the rules and regulations respecting the extension of credit promulgated thereunder.

(P) Exempt Status of Transaction under Securities Act and Representations of Company Relating Thereto. The Company has not, either directly or through any agent, offered all or any part of the loan to be made by you under this agreement or any of the Notes to, or solicited any offers to make all or any part of such loan or to acquire any of the Notes from, or otherwise approached or negotiated or communicated in respect of all or any part of such loan or any of the Notes with, any person other than you and not more than one other institutional investor each of whom was offered a portion of the Notes at a private sale for investment. Neither the Company nor any agent on its behalf will offer to obtain all or any part of such loan from, or offer any of the Notes to, or solicit any offers to make all or any part of such loan or acquire any of the Notes from, or otherwise approach, negotiate or communicate in respect of any part of such loan or any of the Notes with, any person or persons so as thereby to bring the obtaining of such loan by the Company and the delivery of the Notes within the registration provisions of the Securities Act of 1933, as amended.

(Q) Disclosure. Neither this agreement, the 10-K, the 10-Q nor the financial statements referred to in paragraph (A) of this section 2, nor any certificate or statement furnished to you on behalf of the Company in connection with the transactions contemplated hereby, contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained therein in light of the circumstances under which they were made not misleading. There is no fact which materially adversely affects, or in the future may (so far as the Company can now foresee) materially adversely affect, the business prospects or financial condition of the Company or any of its properties or assets which has not been set forth herein or in a certificate or statement in writing furnished to you by the Company.

(R) Employee Retirement Income Security Act of 1974. The consummation of the transactions herein provided for and compliance by the Company with the provisions of this agreement and the Notes issued hereunder will not involve any prohibited transaction within the meaning of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") or Section 4975 of the Internal Revenue Code. No "employee pension benefit plans", as defined in ERISA ("Plans"), maintained by the Company, nor any trusts created thereunder, have incurred any "accumulated funding deficiency" as defined in Section 302 of ERISA nor does the present value of all benefits vested under all Plans exceed, as of January 1, 1998, the last annual valuation date, the value of the assets of the Plans allocable to such vested benefits by an amount in excess of \$100,000.

(S) Compliance with Environmental Laws. The Company complies with all applicable Federal, state and local laws, statutes, rules, regulations and ordinances relating to public health, safety or the environment including, without limitation, relating to releases, discharges, emissions or disposals to air, water, land or ground water, to the

withdrawal or use of ground water, to the use, handling or disposal of polychlorinated biphenyls (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, to the transportation, storage, disposal, management or release of gases or liquid substances, the failure to comply with which could have a materially adverse effect on the Company, its subsidiaries, their business and properties, taken as a whole. The Company does not know of any liability of the Company or any subsidiary under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986 (42 U.S.C. Section 9601 et seq.) which could have a material adverse effect on the Company and its subsidiaries on a consolidated basis, except as disclosed in Exhibit C attached to this agreement.

Section 3. Acquisition for Investment.

The Company makes this agreement with you in reliance upon your representation to the Company, which by your acceptance of this agreement you confirm, that you are acquiring the Notes which are the subject matter of this agreement for your own account for the purpose of investment and not with a view to the distribution of such Notes, but subject nevertheless to any requirement of law that the disposition of your property shall at all times be and remain within your control. You further represent that (i) you are acquiring the Notes for your own account and with your general corporate assets and not with the assets of any separate account in which any employee benefit plan has any interest, and (ii) as used in this section, the terms "separate account" and "employee benefit plan" shall have the respective meanings assigned to them in ERISA.

Section 4. Conditions of Closing.

Your obligation to make the loans provided for in section 1 above shall be subject to the performance by the Company prior to or on the Closing Date of all of its agreements theretofore to be performed under this agreement, to the accuracy of its representations and warranties contained in this agreement and to the satisfaction, prior to or concurrently with the making of such loans on the Closing Date, of the following further conditions:

(A) Opinion of Special Counsel. You shall have received on the Closing Date from Chapman and Cutler, who are acting as special counsel for you in connection with this transaction, an opinion, dated the Closing Date, in form and substance satisfactory to you, 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 this Agreement and to issue the Notes;

(2) this 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 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 application of such principles is considered in a proceeding in equity or at law);

(4) it is not necessary, in connection with the obtaining of such loans from you and the execution and delivery of the Notes to you under the circumstances contemplated by this agreement, to register such Notes under the Securities Act of 1933, as amended, or to qualify an indenture in respect of such Notes under the Trust Indenture Act of 1939, as amended;

(5) the legal opinion referred to in paragraph (B) of this section 4 is satisfactory in form and scope to such special counsel and, in their opinion, you are justified in relying thereon; and

(6) such other matters incident to the transactions contemplated by this agreement as you may request.

(B) Opinion of Counsel to Company. You shall have received on the Closing Date from Jeffrey W. Bartlett, Esq., General Counsel for the Company, an opinion, dated the Closing Date, in form and substance satisfactory to you, as to all matters specified in clauses (2) to (4), inclusive, of paragraph (A) of this section 4, and to the effect that:

(1) the Company is a corporation duly organized, existing and in good standing under the laws of the State of Delaware, with full power and authority to carry on the business and to own the properties described in Exhibit C, to enter into this agreement, to borrow money as contemplated by it, to issue the Notes and to carry out the provisions of this agreement and the Notes;

(2) the Company is duly qualified as a foreign corporation to do business and is in good standing in each of the jurisdictions in which it is required to be qualified to do business as a foreign corporation as stated in Exhibit C;

(3) there is no charter, by-law or preferred or common stock provision, nor any statute, rule or regulation binding on the Company, nor (to the best knowledge and belief of such counsel) any indenture, contract or other agreement to which the Company is a party or by which the Company or its properties is or may

be bound, which would be contravened by the execution and delivery of this agreement or of the Notes or by the performance of any term, provision, condition, agreement, covenant or obligation of the Company contained herein or therein;

(4) neither the borrowing pursuant hereto nor the use by the Company of all or any portion of the proceeds of the loan in accordance with section 5 hereof will violate Section 7 of the Securities Exchange Act of 1934, as amended, or applicable regulations thereunder including, without limitation, Regulations T and X of the Board of Governors of the Federal Reserve System (12 CFR. Chapter II);

(5) except as set forth in the 10-K or in Exhibit C attached hereto, 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;

(6) 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 this agreement or of such Notes; and

(7) such other matters incident to the transactions contemplated by this agreement as you may request.

(C) Certificate as to Representations and Warranties. The representations and warranties of the Company contained in section 2 shall be true on and as of the Closing Date with the same effect as though such representations and warranties had been made on and as of the Closing Date; and the Company shall have delivered to you on the Closing Date a certificate, dated the Closing Date, signed by the President, a Vice President or the Treasurer of the Company to such effect.

(D) Related Transactions. Concurrently with the consummation of the loans and the issuance of the Notes on the Closing Date, the Company shall consummate all of the loans and the issue of the Notes in the aggregate principal amount scheduled for such Closing Date pursuant to this agreement and the other agreements referred to in paragraph (C) of section 1 hereof.

(E) Legality of Investment. The making of the loans provided for in section 1 on the Closing Date and the acquisition of the Notes evidencing the same shall qualify as a legal investment for you under all laws applicable to investments by you (without resort to any so-called basket provisions of such laws) and you shall have received such certificates, or such other evidence as you may reasonably request, to establish compliance with this condition.

(F) No Material Change in Management or Business. There shall not have been since December 31, 1997 any material change in the management, control or nature of the business of the Company and, to the best knowledge and belief of the Company, no such change shall be pending and the Company shall have delivered to you on the Closing Date a certificate, dated such Closing Date, signed by the President, a Vice President or the Treasurer of the Company to such effect.

(G) Compliance with Certain Provisions and Related Certificate. The Company shall not have taken or suffered to be taken any action which it would have been prohibited from taking or suffering to be taken, and shall not have omitted or permitted the omission of any action which it would have been required to take or cause to be taken, if promissory notes in the form of Exhibit A had at all times since the date of this agreement been binding and effective instruments; and the Company shall have delivered to you on the Closing Date a certificate, dated such Closing Date, signed by the President, a Vice President or the Treasurer of the Company, to such effect.

(H) Private Placement Number. On or prior to the Closing Date, special counsel to the Purchasers shall have duly made the appropriate filings with Standard & Poor's CUSIP Service Bureau, as agent for the National Association of Insurance Commissioners, in order to obtain a private placement number for the Notes.

(I) Special Counsel Fees. Concurrently with the delivery of the Notes to you on the Closing Date, the fees, charges and disbursements of Chapman and Cutler, your special counsel, shall have been paid by the Company to the extent reflected in a statement of such counsel rendered to the Company at least one day prior to the Closing Date.

(J) Proceedings and Documents. All proceedings to be taken in connection with the transactions contemplated by this agreement and all documents incident to such transactions shall be satisfactory in form and substance to you and your special counsel; and you shall have received all documents which you and your special counsel may reasonably have requested in connection with such transactions, including copies of records of all corporate proceedings in connection with such transactions, and compliance with the conditions set forth in this section 4, satisfactory in form and substance to you and your special counsel.

Section 5. Use of Proceeds.

The Company will use the proceeds derived by it from the \$30,000,000 aggregate principal amount of the loans obtained by the Company under this agreement and the agreements similar hereto to repay outstanding Indebtedness of the Company, to fund capital expenditures and for other corporate purposes.

Section 6. Method and Place of Payment of Principal, Premium and Interest.

Notwithstanding anything to the contrary in this agreement or the Notes, in the case of any Note owned by you or your nominee or owned by any other institutional holder who has given

written notice to the Company requesting that the provisions of this section shall apply, the Company will promptly and punctually pay when due the principal thereof and premium, if any, and interest thereon, without any presentment thereof directly to you or such nominee or subsequent holder at your address set forth in Schedule I or at such other address as you or such subsequent holder may from time to time designate in writing to the Company or, if a bank account is designated for you on Schedule I hereto or in any written notice to the Company from you or any such subsequent holder, the Company will make such payments in immediately available funds to such bank account before 12:00 Noon, New York time, marked for attention as indicated, or in such other manner or to such other account of yours or such holders in any bank in the United States as you or any such subsequent holder may from time to time direct in writing. The holder of any Notes to which this paragraph applies agrees that in the event it shall sell or transfer any such Notes (i) it will, prior to the delivery of such Notes (unless it has already done so), make a notation thereon of all principal, if any, prepaid on such Notes and will also note thereon the date to which interest has been paid on such Notes, and (ii) it will promptly notify the Company of the name and address of the transferee of any Notes so transferred. With respect to Notes to which this paragraph applies, the Company shall be entitled to presume conclusively that the original or such subsequent institutional holder as shall have requested the provisions hereof to apply to its Notes remains the holder of such Notes until (y) the Company shall have received notice of transfer of such Notes, and of the name and address of the transferee, or (z) such Notes shall have been presented to the Company as evidence of the transfer. Payments made in accordance with this Section 6 shall relieve the Company from all liability to make such payments.

Section 7. Statements, Reports and Certificates to Be Delivered by the Company.

From the date of this agreement to the date on which you first acquire any Note under this agreement, and thereafter the Company will deliver to you, so long as you are the holder of any Note, and to each other institutional holder of then outstanding Notes (in duplicate if so requested) the following:

(A) Quarterly Financial Statements. As soon as reasonably possible, and in any event within 60 days after the close of each of the first three fiscal quarters of the Company, (1) the balance sheet of the Company as of the end of such quarter, setting forth in comparative form the corresponding figures for the corresponding quarter of the preceding fiscal year, and (2) the statements of income, stockholders' equity and cash flows of the Company for such quarter and for the portion of the fiscal year ended with such quarter, setting forth in comparative form the corresponding figures for the corresponding periods of the preceding fiscal year, all in reasonable detail (and prepared on a consolidated basis under the circumstances set forth in the first grammatical paragraph following paragraph (G) of this section 7) and certified as complete and correct by a principal financial officer of the Company, subject to year-end audit.

(B) Annual Reports and Financial Statements. As soon as reasonably possible, and in any event within 90 days after the close of each fiscal year of the Company, (1) the balance sheet of the Company as of the end of such fiscal year, setting forth in comparative form the corresponding figures as of the end of the preceding fiscal year, and (2) the statements of income, stockholders' equity and cash flows of the Company for such fiscal

year, setting forth in comparative form the corresponding figures for the preceding fiscal year. Such balance sheet and statements shall be prepared in reasonable detail and in accordance with good accounting practice and shall be prepared on a consolidated basis under the circumstances set forth in the first grammatical paragraph following paragraph (G) of this section 7; and such balance sheets and statements shall be accompanied by an opinion of independent public accountants of recognized national standing selected by the Company, which opinion shall state that such financial statements were prepared in accordance with generally accepted accounting principles. In addition, such accountants will furnish to you a letter stating that in making their examination of such financial statements nothing came to their attention which caused them to believe that there was any default by the Company in the performance or observance of any covenant, condition or agreement of the Company contained in sections 8 or 9 of the Notes insofar as such covenants, conditions or agreements pertain to accounting matters, provided that if in the course of their regular auditing procedure such accountants become aware of any other type of default, they shall disclose the same but such accountants shall have no responsibility for ascertaining the existence of any such default. The Company agrees to supply you promptly with a copy of any letter, certificate or other writing supplied by its independent public accountants to any other person pertaining to whether such accountants have cause to believe that there has been any default by the Company under any other agreement or evidence of indebtedness.

(C) Certificate as to Certain Financial Information. Within 90 days after the close of each fiscal year of the Company, and in any event not later than the time of delivery of the statements furnished pursuant to paragraph (B) of this section 7, a certificate signed by the principal financial officer of the Company setting forth (i) the aggregate amount, as of the end of such fiscal year, permitted to be used for dividends or distributions on any shares of the capital stock of the Company, or for the redemption, purchase, retirement or other acquisition of any shares of the capital stock of the Company, pursuant to the provisions of paragraph (F) of section 9 of the Notes; (ii) a statement of the rentals paid during such year by the Company and any restricted subsidiaries showing (A) all rentals so paid and (B) all rentals so paid under leases of the type described in paragraph (K) of section 9 of the Notes; (iii) an analysis of changes in consolidated current assets, consolidated net current assets and consolidated tangible net worth of the Company and any restricted subsidiaries from the corresponding figures as of the end of the preceding fiscal year; (iv) a statement of the amount of additional unsecured funded indebtedness which the Company is permitted to incur as of the end of such fiscal year pursuant to the provisions of paragraph (A) of section 9 of the Notes; and (v) a statement evidencing that the Company is in compliance with clause (3) of said paragraph (A); (vi) a statement setting forth the aggregate fair market value of all properties or assets sold, leased, transferred or disposed of by the Company and its restricted subsidiaries, other than in the ordinary course of business, during the same fiscal year of the Company, and an itemization describing each such property or asset having a fair market value equal to or greater than \$250,000; and (vii) a listing of all insurance maintained by the Company and its subsidiaries in compliance with the provisions of paragraph (E) of section 8 of the Notes; together with a brief description, including (where applicable) all necessary computations, of the manner in which the foregoing were determined.

(D) Compliance Certificate. Within 90 days after the close of each fiscal year of the Company, and in any event not later than the time of delivery of the statements furnished pursuant to paragraph (B) of this section 7, a certificate, signed by the President or a Vice President and the Treasurer or an Assistant Treasurer of the Company, stating that a review of the activities of the Company and any subsidiaries during such fiscal year has been made under their supervision with a view to determining whether during such fiscal year the Company and such subsidiaries had kept, observed, performed and fulfilled all of their respective obligations under this agreement and the Notes, and either (1) stating that to their best knowledge and belief the Company and such subsidiaries have during such fiscal year kept, observed, performed and fulfilled each and every covenant and condition of this agreement and the Notes, or (2) if the Company and such subsidiaries shall not so have kept, observed, performed and fulfilled said covenants and conditions, specifying all such defaults and the nature and status thereof.

(E) Special Reports of Accountants. Promptly upon receipt thereof, a copy of all financial statements which are accompanied by an opinion of the Company's independent public accountants and prepared in connection with any special audit of the Company's books or the books of any subsidiary by such accountants.

(F) Other Reports and Statements. Promptly upon the mailing to its stockholders of each annual report, proxy statement or other report or communication, a copy of each such report, proxy statement or communication; and promptly upon any filing by the Company with the Securities and Exchange Commission or any governmental agency or agencies substituted therefor, or with any national securities exchange, of any annual or periodic or special report or registration statement, a copy of such report or statement.

(G) Additional Information. Such other data and information as from time to time may be reasonably requested by you or any such institutional holder.

If, and so long as, the Company has (i) one or more restricted subsidiaries, the financial statements referred to in paragraphs (A) and (B) of this section 7 shall be on a consolidated basis prepared in accordance with good accounting practice, or (ii) one or more unrestricted subsidiaries, the Company shall deliver to you or any such institutional holder, promptly after receipt thereof, copies of balance sheets and income and surplus statements of each such subsidiary which are not included in the financial statements furnished pursuant to paragraph (B) of this section 7, in the form delivered to the Company for the fiscal year of each such subsidiary.

For the purpose of the preceding paragraph the Company's French subsidiary, Stepan Europe S.A., shall be included in the consolidated financial statements as though it were a restricted subsidiary but the Company shall also furnish separate financial statements for said French subsidiary.

The Company will furnish, at such address as may be designated by you or any such institutional holder, and within the applicable time specified in this section 7, one additional copy

of each of the financial statements, certificates, statements and reports which the Company is required to furnish pursuant to this section 7.

In the event that any indebtedness of the Company is declared due and payable before its expressed maturity, or any holder of such indebtedness shall have the right to declare such indebtedness due and payable before its expressed maturity, because of the occurrence of any default or event of default under such indebtedness, the Company will, immediately give you, so long as you hold any of the Notes, or any such institutional holder written notice of such declaration or right of declaration.

You, so long as you shall hold any of the Notes, or any such institutional holder or such person or persons as you or such holder may designate, may visit and inspect any of the properties of the Company or its subsidiaries (except for the Company's Natural Products facilities located at its Maywood, New Jersey, plant), examine (either by your or such holder's employees or by independent accountants employed by you or such holder) the books of account of the Company and the books of account of its subsidiaries and discuss the affairs, finances and accounts of the Company and its subsidiaries with its and their officers, or with its and their independent accountants, all at such reasonable times after notice to the Company and as often as you or such holder may desire. During any period in which an event of default, or any event which, with the passage of time or giving of notice, or both would become an event of default, has occurred and is continuing, the Company shall pay or reimburse you or any such holder for expenses which you or any such holder may incur in connection with any such visitation or inspection.

Section 8. Registered Notes.

The Company shall cause to be kept at its principal office a register for the registration and transfer of the Notes, and the Company will register or transfer or cause to be registered or transferred, as hereinafter provided and under such reasonable regulations as it may prescribe, any Note issued pursuant to this agreement.

At any time and from time to time the registered holder of any Note which has been duly registered as hereinabove provided may transfer such Note upon surrender thereof at the principal office of the Company accompanied by a written instrument of transfer duly executed by such registered holder or its attorney authorized in writing.

The person in whose name any Note shall be registered shall be deemed and treated as the owner and holder thereof for all purposes of this agreement and the Company shall not be affected by any notice or knowledge to the contrary. Payment of or on account of the principal, premium, if any, and interest on any such Note shall be made to or upon the written order of such registered holder.

Section 9. Payments of Certain Expenses by the Company.

Whether or not the loan herein contemplated shall be consummated, the Company will pay all of your reasonable expenses arising in connection with the transactions herein contemplated or in connection with any modification, alteration or amendment of this agreement or the Notes,

including, but not limited to, your out-of-pocket expenses, printing expenses, expenses in connection with the shipment to you or your agent of the Notes delivered to you hereunder, expenses in connection with the shipment from and to you or your agent upon any exchange of notes pursuant to section 2 of the Notes and the reasonable charges and disbursements of your special counsel for all services required of them incident to the transactions herein contemplated. The Company will also pay, and save you and all other holders of the Notes harmless from, any and all liabilities with respect to, or resulting from any delay in paying, (i) stamp or other taxes (including issuance taxes but excluding transfer taxes and interest and penalties on such transfer taxes) which may be determined to be payable in connection with the execution and delivery of this agreement or the Notes or in connection with any modification, alteration or amendment of this agreement or the Notes, (ii) any interest and penalties resulting from non-payment or delay in payment of such expenses, charges, disbursements, liabilities or taxes, and (iii) any income taxes in respect of any reimbursement by the Company for any of such taxes, levies, interest or penalties paid by you. The obligations of the Company under this section 9 shall survive the payment of the Notes.

Section 10. Survival of Covenants; Successors and Assigns.

All covenants, agreements, representations and warranties made by the Company in this agreement and in certificates or other documents delivered pursuant to it shall survive the making by you of the loan contemplated by this agreement and the execution and delivery of Notes to you, and shall continue in full force and effect until all the Notes are paid in full and thereafter to the extent provided by section 9 hereof. All such covenants, agreements, representations and warranties shall be binding upon any successors and assigns of the Company.

Section 11. No Oral Change.

This agreement may not be changed orally, but only by an agreement in writing and signed by the party against whom enforcement of any waiver, change, modification or discharge is sought.

The Company may not assign any of its rights hereunder without your written consent, and you shall not be required to lend hereunder except to the Company as presently existing.

Section 12. Communications and Notices.

Except as otherwise expressly provided in this agreement, all communications and notices provided for in this agreement or under the Notes shall be in writing and, if to the Company, mailed or delivered to it at its office at Edens and Winnetka Avenue, Northfield, Illinois 60093, attention of the Secretary, or at any other office that the Company may hereafter designate by notice to you or, if to you, mailed or delivered to the address shown on Schedule I to this agreement, or to such other address and for such attention as you may from time to time designate to the Company in writing.

Section 13. Law Governing.

This agreement shall be construed in accordance with and governed by the laws of the State of Illinois.

Section 14. Headings.

The headings of the sections and paragraphs of this agreement are inserted for convenience only and shall not be deemed to constitute a part of this agreement.

If you agree with the foregoing, please sign the enclosed copy of this letter in the space provided below and return it to the Company, and this letter shall upon execution become a binding agreement between you and the Company in accordance with its terms.

Very truly yours,

STEPAN COMPANY

By /s/ Walter J. Klein

Its V.P. Finance

The foregoing is hereby accepted as of the date first above written.

CONNECTICUT GENERAL LIFE INSURANCE COMPANY

By: CIGNA Investments, Inc. (authorized agent)

By _____
Its

If you agree with the foregoing, please sign the enclosed copy of this letter in the space provided below and return it to the Company, and this letter shall upon execution become a binding agreement between you and the Company in accordance with its terms.

Very truly yours,

STEPAN COMPANY

By _____
Its

The foregoing is hereby
accepted as of the date
first above written.

CONNECTICUT GENERAL LIFE INSURANCE
COMPANY

By: CIGNA Investments, Inc. (authorized agent)

By /s/ Thomas P. Shea

Its Vice President

Schedule I
(to Loan Agreement)

NAME AND ADDRESS OF LENDER	PRINCIPAL AMOUNT OF NOTES TO BE PURCHASED
THE NORTHWESTERN MUTUAL LIFE INSURANCE COMPANY 720 East Wisconsin Avenue Milwaukee, Wisconsin 53202 Attention: Securities Department Telecopier Number: (414) 299-7124	\$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% Promissory Notes due October 1, 2013, PPN 858586 E*7, principal, premium or interest") to:

Bankers Trust Company (ABA #0210-01033)
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) 299-5714.

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

Taxpayer I.D. Number: 39-0509570

NAME AND ADDRESS
OF LENDER

PRINCIPAL AMOUNT OF
NOTES TO BE PURCHASED

CONNECTICUT GENERAL LIFE INSURANCE COMPANY	\$5,000,000
c/o CIGNA Investments, Inc.	\$5,000,000
900 Cottage Grove Road	
Hartford, Connecticut 06152-2307	
Attention: Private Securities Division - S-307	
Fax: 860-726-7203	

Payments

All payments on or in respect of the Notes to be by Federal Funds Wire Transfer to:

Chase NYC/CTR/
BNF=CIGNA Private Placements/AC=9009001802
ABA #021000021
OBI=[Stepan Company; Promissory Notes; 6.59%; due 2013; PPN 858586 E*7; due date 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 S-309
900 Cottage Grove Road
Hartford, Connecticut 06152-2309

CIG & Co.
c/o CIGNA Investments, Inc.
Attention: Private Securities - S-307
Operations Group
900 Cottage Grove Road
Hartford, Connecticut 06152-2307
Fax: 860-726-7203

with a copy to:

Chase Manhattan Bank, N.A.
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 Investments, Inc.
Attention: Private Securities Division - S-307
900 Cottage Grove Road
Hartford, Connecticut 06152-2307
Fax: 860-726-7203

Name of Nominee in which Notes are to be issued: CIG & CO.

Taxpayer I.D. Number for CIG & CO.: 13-3574027

EXHIBIT A
(to Loan Agreement)

No. R-
PPN: 858586 E* 7

STEPAN COMPANY

6.59% Promissory Notes Due October 1, 2013

\$ _____, _____

STEPAN COMPANY, a corporation duly organized and existing under the laws of the State of Delaware (hereinafter called the "Company"), for value received, hereby promises to pay to

or registered assigns, on October 1, 2013
the principal amount of

to the extent not theretofore prepaid pursuant to the terms of this Note, in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts, at the principal office of the Company in Northfield, Illinois, and to pay interest (computed on the basis of a 360-day year of twelve 30-day months) on the unpaid principal amount hereof from the date hereof, in like coin or currency, at such office, semi-annually on the first day of April and October in each year, at the rate of 6.59% per annum until the unpaid principal amount hereof shall have become due and payable and at the default rate thereafter and, so far as may be lawful, to pay interest on any overdue installment of interest at the default rate at such principal office in like coin or currency.

Section 1. The Notes. This Note is one of a number of promissory notes (hereinafter called the "Notes"), evidenced by the \$30,000,000 aggregate principal amount of 6.59% Promissory Notes Due October 1, 2013 issued or to be issued pursuant to separate and several loan agreements, each dated as of October 1, 1998 entered into by the Company with the lenders therein referred to.

Section 2. Exchanges. The holder of this Note, or of any note or Notes substituted therefor pursuant to the provisions of this section 2, may at its option, in person or by duly authorized attorney, surrender the same for exchange at the principal office of the Company in Northfield, Illinois accompanied by a written instrument of transfer duly executed by the registered holder hereof and, within a reasonable time thereafter and without expenses (other than transfer taxes, if any), receive in exchange therefor one or more duly executed printed Note or Notes in the principal amount of \$100,000 or any integral multiple of \$10,000 in excess thereof, dated as of the date to which interest has been paid on the Note or Notes so surrendered or, if no interest has yet been so paid, then dated the date hereof, and payable to such person or persons as may be

designated by such holder, for the same aggregate principal amount as the then unpaid principal amount of the Note or Notes so surrendered. The Company covenants and agrees to take and cause to be taken all action necessary to effect such exchanges.

Section 3. Payments to Registered Holder. The person in whose name this Note is registered shall be deemed to be and treated as the owner and holder hereof for all purposes and payment of or on account of the principal, premium, if any or interest hereon shall be made to or upon the written order of the registered holder.

Section 4. Prepayment of Notes.

(A) 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 and apply and there shall become due and payable the sum of \$2,727,272 on the principal indebtedness evidenced by the Notes. No premium shall be payable in connection with any required prepayment made pursuant to this paragraph 4(A). Any payment of less than all of the Notes pursuant to the provisions of paragraphs (B), (C) or (D) of this section 4 shall not relieve the Company of the obligation to make the required payments or prepayments on the Notes in accordance with the terms of this paragraph 4(A); provided, however, that if and to the extent that any prepayment of Notes pursuant to the provisions of paragraph 4(D) below does not result in the prepayment of all of the Notes then outstanding, the remaining prepayments required to be made pursuant to this paragraph 4(A) shall, in each case, be reduced in the same proportion that the principal amount of Notes outstanding immediately prior to such prepayment pursuant to paragraph 4(D) is reduced by such prepayment.

(B) Optional Prepayments without Premium. Upon compliance with section 6, the Company 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 prepaid pursuant to this subparagraph 4(B) on any one fixed payment date shall not exceed the principal amount of the Notes required to be prepaid pursuant to paragraph 4(A) on such fixed payment date and (ii) the aggregate amount of all Notes prepaid pursuant to this subparagraph 4(B) shall not exceed an amount equal to \$10,000,000.

(C) Optional Prepayment with Premium. In addition to the prepayments required by paragraph 4(A) and the rights of prepayment set forth in 4(B) the Company shall have the privilege at any time and from time to time of prepaying the outstanding Notes either in whole or in part (but if in part then in units of \$1,000,000 or an integral multiple of \$10,000 in excess thereof) by payment of the principal amount of the Notes or the portion thereof to be prepaid and accrued interest thereon to the date of such prepayment together with the make whole premium amount.

For purposes of this paragraph 4(C) and section 12 below:

The term "make whole premium amount" shall mean, to the extent that the adjusted treasury reinvestment yield at such time is lower than 6.59% per annum, the excess of (a) the present value of the remaining scheduled principal and interest payments and prepayments to become due on that portion of the Notes to be prepaid, taking into account the required application of such prepayment to the scheduled payments and prepayments on the Notes, all determined by discounting such payments and prepayments at a rate that is equal to the adjusted treasury reinvestment yield, over (b) the aggregate principal amount of the Notes plus accrued interest to be paid or prepaid. To the extent that the adjusted treasury reinvestment yield at the time of such prepayment or payment is equal to or higher than 6.59% per annum, the make whole premium amount is zero.

The term "adjusted treasury reinvestment yield" shall mean, as of the date of any determination thereof, the sum of (i) the then applicable treasury reinvestment yield, plus (ii) 50 basis points.

The term "treasury reinvestment yield" shall be (a) the yield reported on the third business day preceding the date of prepayment or payment 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 United States government securities) at 10:00 A.M. (New York time) for United States government securities having a maturity corresponding to the remaining weighted average life to maturity of the principal of the Notes as of the date of such prepayment or payment, as the case may be, rounded to the nearest month, or (b) in the event that no such nationally recognized trading screen reporting on-line trading in United States government securities is available, "treasury reinvestment yield" shall mean the arithmetic mean of the yields published in the weekly statistical release designated H.15(519) of the Federal Reserve System under the caption "U.S. Government Securities-Treasury Constant Maturities" (the "statistical release") or if the statistical release is not published, the arithmetic mean of such reasonably comparable index as may be designated by the holders of at least 51% in aggregate principal amount of the outstanding Notes, for the maturity corresponding to the remaining weighted average life to maturity of the Notes as of the date of such prepayment or payment, as the case may be, rounded to the nearest month. If no maturity exactly corresponds to such rounded weighted average life to maturity, the yields for the two most closely corresponding published maturities shall be calculated pursuant to the immediately preceding sentence and the treasury reinvestment yield shall be interpolated from such yields on a straight-line basis, rounding in each of such relevant periods to the nearest month. For purposes of calculating the treasury reinvestment yield, the most recent statistical release published prior to the third business day preceding the date of prepayment or payment shall be used.

The term "weighted average life to maturity" shall mean as at the time of the determination thereof the number of years obtained by dividing the then remaining dollar-years of the Notes by the aggregate amount of all remaining scheduled principal and interest payments (including the payments at final maturity) to be made on the Notes. The term "remaining dollar-years" of the Notes means the product obtained by (1) multiplying (A) the amount of each of the remaining scheduled principal and interest payments (including the payments at final maturity), by (B) the number of years (calculated at the nearest one-

twelfth) which will elapse between the date of determination of the weighted average life to maturity of the Notes and the date of required payment is due and (2) totaling all the products obtained in (1).

(D) Prepayment on Failure of Holders 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 any time within 5 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. Any holder which has failed to respond to such request prior to the expiration of such 30 day period shall, for purposes hereof, be deemed to have consented to such change of control. Any request by the Company made pursuant to this paragraph 4(D) 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 financial or other information as would be reasonably necessary for each holder to make an informed decision with respect to such request, and (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. In the event that the Company shall receive a response to its request from any holder of a Note, it will promptly advise, in writing, all other holders of Notes of such response and the source and content thereof.

For purposes of this paragraph 4(D) and paragraphs 8(K) and 12(H) below, 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 Securities Exchange Act of 1934, as amended) 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 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 5. Partial Prepayments to be Pro Rata where More than One Note Outstanding. In the event of any prepayment of less than all of the outstanding Notes pursuant to the provisions of paragraphs 4(A), 4(B) or 4(C), at a time when more than one Note is outstanding, the principal amount of the Notes so to be prepaid shall be allocated among the respective Notes and holders

thereof so that the principal amount to be prepaid to each holder pursuant to any section hereof shall bear the same ratio to the aggregate principal amount then to be prepaid pursuant to such section as the principal amount of Notes then held by such holder bears to the aggregate principal amount of all Notes then outstanding, except that if upon any allocation on such basis the amounts so to be prepaid to any such holder pursuant to any section hereof would not be an exact multiple of \$1,000, then additional or lesser amounts not exceeding \$1,000 may be allocated by the Company to such holder, or if the amount so to be prepaid to any such holder pursuant to such section would be less than \$1,000, then no amount need be allocated to such holder, in each such case so long as allocations of prepayments among the respective Notes and holders thereof shall be appropriate to maintain, from time to time, through successive partial prepayments as nearly as practicable the ratio above provided. Prepayments of Notes pursuant to the provisions of paragraph 4(D) shall be allocated as therein provided.

Section 6. Notice of Prepayment and Other Notices.

(A) Prepayment Notice. If the Company shall elect to prepay this Note or any portion hereof pursuant to paragraph 4(B) or 4(C), the Company shall give notice of such prepayment in writing not less than 30 nor more than 60 days prior to the date fixed for such prepayment, specifying (i) the prepayment date, (ii) the principal amount to be prepaid on this Note and on all the other outstanding Notes, (iii) an estimate of the make whole premium amount, if any, applicable to the prepayment of this Note, and (iv) accrued interest applicable to such prepayment. A computation of the amount, if any, of any make whole premium amount payable in connection with a prepayment of this Note shall be furnished to the holder hereof as soon as practicable after determination of such premium and, in all events, not less than three business days prior to the date of such prepayment.

(B) Mailing of Notices. Such notice of prepayment, and all other notices to be given to any holder of this Note, shall be sent by prepaid overnight courier to the payee herein named, irrespective of whether the payee is the holder of this Note; provided, however, that if any subsequent holder of this Note shall have presented it to the Company for inspection at the office of the Company maintained as provided in paragraph (A) of section 8, and shall have delivered to the Company at such office a written notice of the acquisition by such holder of this Note and designated in writing an address to which notices in respect of this Note shall be mailed, such notices shall be sent to such holder at such designated address instead of to the payee herein named. All notices to be given to any holder of this Note shall be deemed to have been given only upon actual receipt thereof by such holder. In the case of a properly addressed notice, the Company shall not be required to determine the authority of any person signing or initialing a confirmation of receipt.

Section 7. Notes Due and Interest Ceases on Prepayment Date; Evidence of Partial Prepayment; New Notes. Upon notice of prepayment being given as in this Note provided, the Company shall be obligated to prepay, at the principal office of the Company in Northfield, Illinois, on the date specified in such notice, this Note or such portion hereof to be prepaid as is specified in such notice at the principal amount thereof, plus accrued interest thereon to the date so specified and the applicable make whole premium amount, if any. If this Note is designated for prepayment in whole or in part as hereinbefore provided, then this Note or such portion hereof as

is designated for prepayment, as the case may be, shall cease to bear interest on and after the date fixed for such prepayment provided such prepayment is duly made. Upon the due prepayment in part of this Note, the holder hereof shall surrender it to the Company, which shall thereupon issue and deliver, without charge to such holder, a new Note for the unpaid balance of this Note; provided, however, that instead of surrendering this Note as aforesaid, the holder of this Note may, at its option, present this Note to the Company for notation hereon of the payment of the portion of the principal of this Note so prepaid and this Note shall thereupon be returned to or on the order of the holder hereof. To the extent that any of the Notes are fully prepaid they shall be cancelled and may not be redelivered. Any new Note made and delivered in accordance with the provisions of this section 7 shall be dated as of the date to which interest has been paid on the indebtedness to be evidenced by such new Note, or if no interest has yet been so paid, then dated the date hereof.

Section 8. Affirmative Covenants. The Company covenants and agrees that so long as this Note shall be outstanding:

(A) Maintenance of Office or Agency. The Company will maintain an office in Northfield, Illinois or at such other place hereafter designated in writing by the Company by notice to the holder of this Note, where notices, presentations and demands to or upon the Company in respect of this Note may be given or made.

(B) Payment of Principal, Premium and Interest. The Company will punctually pay or cause to be paid the principal and interest, and premium, if any, to become due in respect of all the Notes according to the terms thereof.

(C) Maintenance of Corporate Existence. The Company will at all times do or cause to be done all things necessary to maintain, preserve and renew its corporate existence and the corporate existence of each of its subsidiaries and its and their rights, patents and franchises, and comply with and cause each subsidiary to comply with, all related laws applicable to the Company or its subsidiaries in such manner as counsel shall advise; provided, however, that nothing contained in this paragraph (C) shall (1) require the Company or any subsidiary to comply with any law so long as the validity or applicability thereof shall be contested in good faith, (2) require the Company or any subsidiary to maintain, preserve or renew any right or franchise not necessary or desirable in the conduct of the business of the Company or of such subsidiary, as the case may be, (3) prevent the termination of the corporate existence of any subsidiary if in the opinion of the Board of Directors of the Company such termination is in the best interest of the Company and not disadvantageous to the holders of the Notes, or (4) prevent any transaction by a subsidiary permitted by the provisions of clause (4) or (5) of paragraph (B) of section 9, or any transaction by the Company permitted by the provisions of paragraph (I) of section 9.

(D) Properties. The Company will, in so far as it is not prevented by causes beyond its control, at all times maintain, preserve, protect and keep, or cause to be maintained, preserved, protected and kept, its property and the property of its subsidiaries in good repair, working order and condition and, from time to time, will, in so far as it is

not prevented by causes beyond its control, make or cause to be made all repairs, renewals, replacements, extensions, additions, betterments and improvements to its property and the property of its subsidiaries as are needful and proper, so that the business carried on in connection therewith may be conducted properly and efficiently at all times; provided, however, that nothing in this paragraph (D) shall prevent the Company or any subsidiary from selling, abandoning or otherwise disposing of any property if such property is no longer of use in the business of the Company or the subsidiary owning the same, and if, in the opinion of the Company, such sale, abandonment or other disposition is in the best interest of the Company or such subsidiary and not disadvantageous to the holders of the Notes.

(E) Insurance. The Company will provide or cause to be provided for itself and its subsidiaries such insurance against loss or damage of the kinds customarily insured against by corporations similarly situated, with reputable insurers, in such amounts and by such methods as shall be adequate, and will at all times maintain or cause to be maintained in full force and effect, with reputable insurers and in such amounts and by such methods as shall be adequate, public liability insurance against loss or damage to it or its subsidiaries for bodily injury or death in or about any premises occupied by it or its subsidiaries, and liability insurance against loss or damage to it or its subsidiaries for bodily injury or death or injury to property occurring by reason of the operation by it or its subsidiaries of any motor vehicle.

(F) Payment of Taxes, Assessments, Etc. The Company will duly pay and discharge, and cause each of its subsidiaries to duly pay and discharge, as the same become due and payable, all taxes, assessments and governmental and other charges and claims levied or imposed, or which if unpaid might become a lien or charge, upon the franchises, assets, earnings or business of the Company or such subsidiary, as the case may be, as well as all lawful claims for labor, materials and supplies which, if unpaid, might become a lien or charge upon such properties or any part thereof; provided, however, that nothing contained in this paragraph (F) shall require the Company or any such subsidiary to pay any such tax, assessment, charge or claim so long as the Company or such subsidiary in good faith shall contest the validity thereof and shall set aside on its books adequate reserves with respect thereto.

(G) Payment of Indebtedness. The Company will, and will cause each of its subsidiaries to, pay punctually and discharge when due, or renew or extend (except as otherwise prohibited by this Note), any indebtedness heretofore or hereafter incurred by it or any of them, as the case may be, and discharge, perform and observe the covenants, provisions and conditions to be performed, discharged and observed on the part of the Company or such subsidiary, as the case may be, in connection therewith, or in connection with any agreement or other instrument relating thereto, or in connection with any mortgage, pledge, security interest or other lien existing at any time upon any of the property or assets of the Company or such subsidiary, as the case may be; provided, however, that nothing contained in this paragraph (G) shall require the Company or any such subsidiary to pay or discharge or renew or extend any such indebtedness or to discharge, perform or observe any such covenants, provisions and conditions so long as

the Company or such subsidiary in good faith shall contest any claim which may be asserted against it in respect of any such indebtedness or of any such covenants, provisions and conditions and shall set aside on its books adequate reserves with respect thereto.

(H) Keeping of Books. The Company will, and will cause each subsidiary to, (1) 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 good accounting practice; and (2) set aside on its books from its earnings, for the fiscal year ending December 31, 1998, and each fiscal year thereafter, reserves for depreciation, obsolescence and/or amortization of its properties during such year and all other proper reserves which, in accordance with good accounting practice, should be set aside from such earnings in connection with its business.

(I) Compliance with Law. The Company will, and will cause each of its subsidiaries to, use its best efforts to comply with all applicable statutes, regulations, orders and restrictions of the United States of America, foreign countries, states, provinces, municipalities and agencies and instrumentalities of the foregoing, in respect of the conduct of its respective business and the ownership of its respective property (including, without limitation, applicable statutes, regulations, orders and restrictions relating to equal employment opportunities and environmental standards and controls), except such as are being contested in good faith or with respect to which compliance shall have been waived or extended by the applicable governmental authority.

(J) Notice of Default. If any one or more of the events of default specified in section 12 shall occur, or if the holder of any Note shall demand payment or take any other action permitted upon the occurrence of any such event of default, the Company will at once give notice to all holders of the Notes, specifying the nature of the event of default or of such demand or other action, as the case may be. In the event any indebtedness of the Company (other than the Notes) is declared due and payable before its expressed maturity because of the occurrence of an event of default thereunder, or under any instrument or agreement pursuant to which such indebtedness is issued or securing such indebtedness, the Company will at once give notice in writing of such happening to all holders of the Notes.

(K) Notice of Change of Control. The Company will, within two business days of becoming aware of a change of control (as defined in paragraph 4(D)), give notice thereof to all holders of the Notes.

(L) Year 2000 Compliance. The Company will, and will cause each restricted subsidiary to, comply with all applicable disclosure requirements and rules, regulations and orders promulgated by the Securities and Exchange Commission (the "SEC") relating to the Year 2000 Problem. The "Year 2000 Problem" means any significant risk that computer hardware or software used in the Company's or its restricted subsidiaries' businesses or operations may be unable to recognize and perform properly date-sensitive functions involving dates or time periods occurring after December 31, 1999, including the making of accurate leap year calculations.

Section 9. Negative Covenants. The Company covenants and agrees that so long as this Note shall be outstanding:

(A) Limitations on Funded Indebtedness. The Company will not create, incur, issue, assume or become or be liable, contingently or otherwise, in respect of any funded indebtedness other than

(1) funded indebtedness outstanding on September 15, 1998 and reflected on Schedule B to the loan agreements and funded indebtedness represented by the Notes;

(2) secured funded indebtedness incurred or assumed subsequent to September 15, 1998 solely for the purpose of financing the acquisition of property and secured only as permitted under clauses (2), (3) and (4) of paragraph (C) of this section 9, but only in an amount not exceeding the maximum amount of additional unsecured funded indebtedness which the Company could then incur under clause (3) of this paragraph (A), provided that for purposes of this Note, secured funded indebtedness shall not include indebtedness for money borrowed by the Company against or secured by the cash surrender value of life insurance maintained by the Company on officers or directors of the Company, which indebtedness shall constitute unsecured funded indebtedness for all purposes of this Note;

(3) unsecured funded indebtedness incurred or assumed subsequent to September 15, 1998 if, and to the extent that, immediately after giving effect thereto and the application of the proceeds thereof, consolidated funded indebtedness does not exceed an amount equal to 55% of consolidated capitalization, it being understood that the test of this clause (3) is one of incurrence only;

(4) indebtedness taking the form of a guaranty of indebtedness of any other person permitted by clause (3) of paragraph (D) of this section 9, but only if, and to the extent that, immediately after giving effect thereto, the limitations set forth in clause (3) of this paragraph (A) shall be satisfied, all such guaranties being treated as funded indebtedness for the purpose of clause (3) of this paragraph (A); and

(5) funded indebtedness of the Company incurred solely for the purpose of extending, renewing or refunding any funded indebtedness of the Company then outstanding and permitted by this paragraph (A), but only if, and to the extent that, immediately after giving effect thereto, the limitations set forth in clause (3) of this paragraph (A) shall be satisfied.

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

(1) create, incur, issue, assume or become or be liable, contingently or otherwise, in respect of any indebtedness except (a) indebtedness to the Company or to a wholly-owned restricted subsidiary, (b) 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 (c) indebtedness in addition to that described in subclauses (a) and (b) above; provided that the aggregate principal amount of all such indebtedness permitted by this subclause (c) shall not at any time exceed 10% of consolidated capitalization of the Company and its restricted subsidiaries; and provided further that the sum, without duplication, of (x) the aggregate unpaid principal amount of all such indebtedness permitted by this subclause (c), (y) the aggregate unpaid principal amount of all indebtedness of the Company secured pursuant to the provisions of clauses (2), (3) and (4) of paragraph (C) of this section 9, and (z) the aggregate amount of liabilities of the Company and its restricted subsidiaries secured by liens permitted pursuant to the provisions of clause (11) of paragraph (C) of this section (9), shall not at any time exceed 20% of consolidated capitalization of the Company and its restricted subsidiaries; or

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

(3) sell, assign, transfer or otherwise dispose of any shares of capital stock of any class of any other restricted subsidiary, or any other security of, or any indebtedness owing to it by, any other restricted subsidiary (except in each case to the Company or to a wholly-owned restricted subsidiary) unless such sale, assignment, transfer or other disposition shall meet all the conditions set forth in paragraph (G) of this section 9 which would be applicable to a similar disposition made by the Company; or

(4) consolidate with or merge into any other corporation or permit any other corporation to merge into it, except a merger into or consolidation with (a) the Company, (b) any wholly-owned restricted subsidiary or (c) any other corporation if, immediately thereafter, (x) the surviving corporation shall be a restricted subsidiary, (y) the Company shall be in full compliance with all the terms and provisions of the Notes, and (z) the surviving corporation would be permitted to incur at least \$1.00 of additional unsecured funded indebtedness pursuant to the provisions of section 9(A)(3) hereof; or

(5) sell, lease, transfer or otherwise dispose of all or any substantial part of its property and assets except (a) to the Company or any wholly-owned restricted subsidiary or (b) in the case of a sale to any other person, in compliance with all applicable requirements of paragraphs (G) and (I) of this section 9; or

(6) make any investments or commitments to make investments except as expressly permitted by paragraph (E) of this section 9.

Any corporation which becomes a restricted subsidiary after the date hereof shall for all purposes of this paragraph (B) be deemed to have created, assumed or incurred, at the time it becomes a restricted subsidiary, all indebtedness of such corporation existing immediately after it becomes a restricted subsidiary.

(C) 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 date of original issue of the Notes 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 satisfactory in scope, form and substance to the holders of at least 66-2/3% in aggregate principal amount of the outstanding Notes and which security shall continue in full force and effect until either (x) the same is released by the holders of at least 66-2/3% in aggregate principal amount of outstanding Notes, (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 paragraph (C) shall not prevent or restrict the creation, incurring or existence of any of the following:

(1) any mortgage, lien, security interest, charge or encumbrance on, or pledge of, any property or assets of any such subsidiary to secure indebtedness owing by it to the Company or a wholly-owned restricted subsidiary;

(2) purchase money mortgages or other liens on real property (including leaseholds) and fixtures thereon, acquired by the Company or any 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, (a) the principal amount of the indebtedness secured by each such mortgage or lien, plus the principal amount of all other indebtedness secured by mortgages or liens on the same property, shall not exceed 75% (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 (b) every mortgage or lien shall apply only to the property originally subject thereto and fixed improvements constructed thereon;

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

(4) the owning or acquiring or agreeing to acquire machinery or equipment useful for the business of the Company or any 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 clause (2) of paragraph (A) of this section 9;

(5) 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;

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

(7) liens arising out of judgments or awards against the Company or any 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;

(8) liens for taxes not yet subject to penalties for non-payment or contested as permitted by paragraph (F) of section 8, or minor survey exceptions, or minor encumbrances, easements or reservations of, or rights of others for, rights of way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real properties, which encumbrances, easements, reservations, rights and restrictions do not in the aggregate materially detract from the value of said properties or materially impair their use in the operation of the business of the Company or of such subsidiary owning the same;

(9) liens: (i) 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 (ii) resulting from the acceptance of progress or partial payments under United States Government contracts or subcontracts thereunder;

(10) any arrangement permitted by paragraph (J) of this section 9;

(11) inchoate liens arising under the Employee Retirement Income Security Act of 1974, as amended, to secure contingent liabilities under said Act;

(12) security interest evidenced by a UCC-1 financing statement to secure an obligation not exceeding \$1,000,000 in favor of Millmaster/Onyx Chemical Company as vendor of certain chemical inventories located in Northfield, Illinois; or

(13) liens on accounts receivable and ancillary rights sold (or in which participating interests are sold) in compliance with all applicable requirements of paragraph (I) of this section 9

provided however 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 clauses (2), (3) and (4) of this paragraph (C) 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 the Company secured by the mortgages or liens permitted by clauses (2), (3) and (4) of this paragraph (C);

(ii) the aggregate unpaid principal amount of all indebtedness of restricted subsidiaries permitted by subclause (c) of clause (1) of paragraph (B) of this section 9; and

(iii) the aggregate amount of liabilities of the Company and its restricted subsidiaries secured by liens permitted pursuant to the provisions of clause (11) of this paragraph (C)

shall not at any time exceed an amount equal to 20% of consolidated capitalization.

For purposes of this Note, 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.

(D) 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 (1) guarantees 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 Note, (2) guaranties incurred in the ordinary course of business of the Company or of a restricted subsidiary, and (3) guarantees by the Company of indebtedness of persons other than restricted subsidiaries to the extent permitted by clause (4) of paragraph (A) of this section 9.

(E) Limitation 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, (1) the aggregate amount of all investments, including investments made prior to the date of original issue of the Notes (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 (2) consolidated funded indebtedness shall exceed 55% of consolidated capitalization.

(F) Limitation 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) the Company would be permitted to incur at least \$1.00 of additional unsecured funded indebtedness pursuant to the provisions of section 9(A)(3) 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, 1994, 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, 1994, 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, 1994, 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, 1994,

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, 1994. The foregoing provisions of this paragraph (F) 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 paragraph (F), 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 paragraph (F). The Company will not declare any dividend payable more than 90 days after the date of declaration thereof. The Company will not declare any dividend if an event of default under section 12 shall have occurred and be continuing.

(G) Limitations on Dispositions of Stock or Indebtedness of Restricted Subsidiaries. The Company will not sell, assign, transfer or otherwise dispose of (except to a wholly-owned restricted subsidiary) any shares of capital stock of any class of any restricted subsidiary, or any other security of, or any indebtedness owing to it by, any such subsidiary, unless (1) all of the capital stock and other securities and the entire indebtedness of such subsidiary at the time owned by the Company and by all its other restricted subsidiaries shall be sold, assigned, transferred or otherwise disposed of, at the same time, for cash, (2) such subsidiary shall not, at the time of such sale, assignment, transfer or other disposition, own either (a) any shares of capital stock of any class or any other security or any indebtedness of any other restricted subsidiary of the Company which is not being simultaneously disposed of as permitted by this paragraph (G) or (b) any indebtedness of the Company, and (3) such sale, assignment or transfer is permitted by paragraph (I) of this section 9.

(H) Maintenance of Consolidated Current Assets. The Company will not permit the consolidated current assets of the Company and its restricted subsidiaries to be at any time less than 140% of consolidated current indebtedness.

(I) Limitations on Mergers, Consolidations and Sales of Assets. The Company will not (1) consolidate with or merge into any other corporation, or permit any other corporation to merge into the Company, unless (a) the surviving or continuing corporation shall be the Company, and (b) no event of default under section 12 shall exist at the time of, or result from, such merger or consolidation, and (c) after giving effect to such consolidation or merger the Company would be permitted to incur at least \$1.00 of additional funded indebtedness under the provisions of paragraph (A)(3) of this section 9; or (2) sell, lease, transfer or otherwise dispose of all or any substantial part of its property and assets.

For the purposes of this paragraph (I) and clause (5) of paragraph (B) of this section 9, 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 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 the net 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

(ii) the prepayment of unsecured funded indebtedness of the Company, including the concurrent prepayment of Notes pursuant to the provisions of paragraph 4(C) 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 (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.

(J) 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 (1) the lease covering such property or other property shall be for a term of not less than three years, and (2) the Company could then incur unsecured funded indebtedness under clause (3) of paragraph (A) of this section 9 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 good accounting practice.

(K) Limitation 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 paragraph (K), 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.

(L) 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.

(M) Compliance with ERISA.

(1) The Company will not, and will not permit any restricted subsidiary to, permit the aggregate value of all vested benefits under all its employee benefit plans which are employee pension benefit plans to exceed on any valuation date the then current value of the assets of such employee benefit plans allocable to such vested benefits unless the Company could issue additional unsecured funded indebtedness pursuant to section 9(A)(3) in an amount at least equal to the amount by which such vested benefits exceed the current value of the assets of such plans

allocable to such vested benefits. All actuarial assumptions and methods used to make each determination required by the preceding sentence shall be reasonable in the aggregate, and shall comply with all requirements of law. All such employee benefit plans shall have annual or more frequent valuation dates.

If, on any valuation date, after giving effect to any increase in vested benefits, the value of vested benefits under all employee pension benefit plans maintained by the Company and its restricted subsidiaries exceeds the value of plan assets, the amount of any deficit resulting from an increase in vested benefits subsequent to the immediately preceding valuation date shall be amortized and made up during the twelve-month period following the valuation date as of which such deficit was determined, or on such other basis as is agreed to by the Company and the holder or holders of 51% in aggregate principal amount of all outstanding Notes and the holder or holders of the Notes agree that their approval of any such other basis proposed by the Company shall not be unreasonably withheld. In addition, the Company will make annual contributions in the aggregate sufficient to comply with the Employee Retirement Income Security Act of 1974, as amended ("ERISA") standards as to the funding of employee pension benefit plans. The Company will make an evaluation at least once a year and also after the occurrence of an event resulting in an extension of pension benefits to additional employees or negotiation of labor contracts increasing pension benefits or any other event which the Company should reasonably expect to increase vested benefits.

(2) The Company will not, and will not permit any subsidiary to, (a) terminate any of its employee benefit plans so as to result in any material liability to the Pension Benefit Guaranty Corporation established pursuant to ERISA, (b) allow or suffer to exist any material prohibited transaction involving any of such employee benefit plans, (c) incur or suffer to exist any material accumulated funding deficiency, whether or not waived, involving any of such employee benefit plans, or (d) allow or suffer to exist any occurrence of any reportable event, or any other event or condition, which presents a material risk of termination of such employee benefit plans by such Pension Benefit Guaranty Corporation so as to result in a material liability to the Pension Benefit Guaranty Corporation.

(3) As used in this paragraph (M), the terms "vested benefits," "employee pension benefit plans," "accumulated funding deficiency" and "reportable event" shall have the respective meanings assigned to them in ERISA, and the term "prohibited transaction" shall have the meaning assigned to it in Internal Revenue Code Section 4975 and ERISA.

Section 10. Consents, Waivers and Modifications. Any term, covenant, agreement or condition of this Note may be amended, or compliance therewith may be waived (either generally or in a particular instance and either retroactively or prospectively), if the Company shall have obtained the agreement or consent in writing of the holders of at least 51% in aggregate principal amount of all outstanding Notes; provided, however, that without the agreement or consent in writing of the holders of all outstanding Notes no such amendment or waiver shall (i) change the

amount or maturity of any principal of the Notes or any installment or fixed prepayment thereof or change the rate or extend the time of payment of interest on the Notes or reduce the amount of principal thereof or premium with respect thereto or modify any of the provisions of the Notes with respect to the payment or prepayment thereof, (ii) give to any Note any preference over any other Note, (iii) reduce the percentage of holders of Notes required to approve any such amendment or effectuate any such waiver or (iv) change the definition of "change of control" set forth in paragraph 4(D). Any such amendment or waiver shall apply equally to all holders of the Notes and shall be binding upon them, upon each future holder of any Note and upon the Company, whether or not such Note shall have been marked to indicate such amendment or waiver. No such amendment or waiver shall extend to or affect any obligation not expressly amended or waived or impair any right consequent thereon.

Section 11. Definitions. For the purposes of this Note, the following terms shall have the following respective meanings, and any accounting terms not defined in this Note shall have the respective meanings given to them in accordance with good accounting practice:

(A) The term "affiliate" of any corporation shall mean any person which, directly or indirectly, controls or is controlled by or is under common control with such corporation. For the purposes of this definition, "control" (including the correlative meanings of "controlling," "controlled by" and "under common control with") shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such person, whether through the ownership of voting securities, by contract or otherwise.

(B) The term "assets" of any corporation shall mean, at any date, the gross book value as shown by the books of such corporation in accordance with good accounting practice 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 (1) 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 good accounting practice 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 (2) 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.

(C) The term "capitalized lease" shall mean any lease which, in accordance with good accounting practice, 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.

(D) The term "consolidated," when used in respect of the assets, current assets, current indebtedness and funded indebtedness of the Company and its restricted subsidiaries shall mean 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 good accounting practice; 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.

(E) The term "consolidated capitalization" shall mean the sum of (i) consolidated funded indebtedness, plus (ii) consolidated tangible net worth.

(F) The term "consolidated balance sheet" shall mean a balance sheet consolidating the accounts of the Company and its restricted subsidiaries prepared, subject to any applicable provisions hereof, in accordance with good accounting practice and after eliminating all intercompany items and all other items which should be eliminated in accordance with good accounting practice.

(G) The term "consolidated net current assets" shall mean the amount by which consolidated current assets exceeds consolidated current indebtedness.

(H) The term "consolidated net income" shall mean 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 good accounting practice.

(I) The term "consolidated tangible net worth" shall mean the aggregate of the tangible net worth of the Company and its restricted subsidiaries, consolidated in accordance with good accounting practice.

(J) The term "corporation" shall include corporations, joint stock companies and business trusts.

(K) The term "current assets", to the extent permitted by and in all cases as determined in accordance with, good accounting practice, shall include (1) cash on hand or in transit or on deposit in any bank or trust company which has not suspended business; (2) readily marketable securities issued by the United States of America and other readily marketable securities maturing within one year from the date of issuance, taken in total at not more than cost or current market value, whichever is lower; (3) customers' accounts and bills and notes receivable; (4) inventories of raw materials and supplies, of work or materials in process and of finished products, taken in total at not more than cost or current market value, whichever is less; and (5) such other assets including prepaid expenses but

not deferred charges as, in accordance with good accounting practice, would be included in "current assets"; all after deduction of adequate reserves in each case where a reserve is proper under good accounting practice; provided, however, that in computing current assets there shall be excluded any assets which are pledged or deposited as security for or for the purpose of paying any obligation which is not included in current indebtedness.

(L) The term "current indebtedness" shall mean all indebtedness other than funded indebtedness, and, without limitation, shall include (1) all indebtedness maturing on demand or within one year after the date as of which such determination is made, (2) final maturities and prepayments of indebtedness and sinking fund payments (including, with respect to the Notes, not only (a) fixed prepayments, but also (b) other prepayments on and after the date of notice of prepayment thereof pursuant to section 6) required to be made in respect of any indebtedness within one year after said date, and (3) all other items (including taxes accrued as estimated) which in accordance with good accounting practice would be included as current liabilities.

(M) The term "default rate" shall mean the greater of (1) 8.59% per annum, or (2) the prime rate of interest as announced from time to time by The First National Bank of Chicago (or if not so announced by said bank then the prime rate as reported from time to time in the money rate section of The Wall Street Journal).

(N) The term "events of default" shall have the meaning specified in section 12.

(O) The term "funded indebtedness" shall mean 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.

(P) The term "good accounting practice" shall mean, as to a particular corporation, such accounting practices as, in the opinion of the independent accountants regularly retained by such corporation, conforms at the time to generally accepted accounting principles.

(Q) The term "indebtedness" of any corporation shall mean and include (1) all items which, in accordance with good accounting practice, would be included on the liability side of a balance sheet of such corporation as of the date as of which indebtedness is to be determined, including all capitalized payment obligations created or arising under any capitalized lease, but excluding capital stock, capital, paid-in and earned surplus, surplus reserves which in effect are appropriations of surplus or offsets to asset values (other than all reserves in respect of obligations, the amount, applicability or validity of which is at such date being contested in good faith by such corporation) and deferred credits, (2) indebtedness secured by any mortgage, pledge, security interest or lien existing on property owned subject to such mortgage, pledge, security interest or lien whether or not the indebtedness secured thereby shall have been assumed, (3) all proper accruals for

federal and other taxes based on or measured by income or profits, and (4) except for guaranties referred to in clauses (1) and (2) of paragraph (D) of section 9, all indebtedness guaranteed, directly or indirectly, in any manner by such corporation, or in effect guaranteed or supported, directly or indirectly, by such corporation through an agreement, contingent or otherwise, (a) to purchase the indebtedness, (b) to purchase, sell, transport or lease (as lessee or lessor) property or to purchase or sell services at prices or in amounts designed to enable the debtor to make payment of the indebtedness or to assure the owner of the indebtedness against loss, or (c) to supply funds to or in any other manner invest in the debtor; provided, however, that such term shall not mean and include any indebtedness in respect of which moneys sufficient to pay and discharge the same in full (either on the expressed date of maturity thereof or on such earlier date as such indebtedness may be duly called for redemption and payment) shall be deposited with a depository, agency or trustee in trust for the payment thereof, but only if, in the case of indebtedness to be redeemed prior to the maturity thereof, any notice of redemption required by the terms thereof shall have been duly given or provision satisfactory to the depository, agent or trustee, as the case may be, shall have been made for the giving of such notice.

(R) The term "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 (1) 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 (2) the purchase, acquisition or ownership by the Company or a restricted subsidiary of (a) 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, (b) direct obligations of, or obligations unconditionally guaranteed by, the United States of America or any agency thereof, (c) 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), (d) 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 (e) 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."

(S) The term "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:

(1) The gross revenues and other proper income credits of such corporation shall be computed for such period in accordance with good accounting practice; 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;

(2) From the amount of such gross revenues and other proper income credits for such period determined as provided in the preceding clause (1), 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 good accounting practice but in any event deducting (without in any respect limiting the generality of the foregoing) the following items: (a) all interest charges; (b) amortization of debt discount and expense and any other amortization of deferred charges properly subject to amortization; (c) provision for all taxes whether in respect of property, income, excess profits or otherwise; (d) provisions for all contingency and other reserves whether general or special; and (e) 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 Internal Revenue Code of 1986, as amended, 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 good accounting practice 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 (1) and (2) above, (i) any federal tax adjustments for any period prior to January 1, 1995 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, 1994 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, 1994; (ii) any adjustments for any period prior to January 1, 1995 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, 1994 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, 1994; (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, 1994; (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, 1994; (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, 1994; (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, 1994; (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, 1994; 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, 1994. 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.

(T) The term "person" shall include any individual, a corporation, a partnership or a government, foreign or domestic, or any agency or political subdivision thereof.

(U) The term "restricted subsidiary" shall mean any subsidiary of the Company which (i) is organized under the laws of any state of the United States of America or under the laws of Canada or any province thereof, (ii) has substantially all of its assets located within, and operates substantially within, the United States of America or Canada, (iii) at least 50% of the outstanding voting stock having ordinary voting power to elect a majority of the Board of Directors of such corporation (irrespective of whether or not at the time stock of any other class or classes shall have or might have voting power by reason of the happening of any contingency) is at the time directly or indirectly owned by the Company, by one or more of its wholly-owned restricted subsidiaries or by the Company and one or more of its wholly-owned restricted subsidiaries, and (iv) which the Company designates as a restricted subsidiary, by notice to the holders of the Notes in the manner in section 6 provided, at the date on which the Notes shall be originally issued or subsequent to the acquisition of any such subsidiary by the Company; provided, however, that the Company may not designate any subsidiary as a restricted subsidiary unless at the time of such designation, and after giving effect thereto, (a) the Company could become liable for at least \$1.00 of additional unsecured funded indebtedness pursuant to clause (3) of

paragraph (A) of section 9, and (b) 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 such subsidiary from restricted subsidiary to unrestricted subsidiary.

(V) The term "subsidiary" shall mean, as to a particular parent corporation, any corporation of which more than 50% of the outstanding 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 of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time directly or indirectly owned by such parent corporation, by one or more of its subsidiaries or by such parent corporation and one or more of its subsidiaries.

(W) The term "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 good accounting practice 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 (1) the par or stated value of all outstanding stock, (2) capital, paid-in and earned surplus and (3) deferred taxes and investment tax credits, less the sum of (a) any surplus resulting from any write-up of assets subsequent to December 31, 1994, (b) 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, (c) 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, (d) 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), (e) any amounts at which shares of capital stock of such corporation appear on the asset side of such balance sheet, and (f) any amount of indebtedness not included on the liability side of such balance sheet.

(X) The term "unrestricted subsidiary" shall mean any subsidiary other than a restricted subsidiary.

(Y) The term "wholly-owned restricted subsidiary" shall mean any restricted subsidiary all of whose outstanding stock of all classes (other than directors' qualifying shares) 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.

Section 12. Events of Default and Remedies. When any event of default (hereafter defined) described in paragraph (A) below has happened and is continuing, the holder or holders of 25% or more of the principal amount of Notes at the time outstanding may, and when any event of default described in paragraph (B), (C), (F), (G) or (H) below has happened and is continuing, the holder or holders of 51% or more of the principal amount of Notes at the time outstanding may, by written notice to the Company, declare the entire principal and all interest accrued on all Notes to be, and all such Notes shall thereupon become, forthwith due and payable, without any presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived; provided, however, when any event of default described in paragraph (A) below has happened and is continuing with respect to any Note, the holder of such Note may, by written notice to the Company, declare the entire principal and all interest accrued on such Note to be, and such Note shall thereupon become, forthwith due and payable, without any presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived. When any event of default described in paragraph (D) or (E) below has occurred, then all outstanding Notes shall immediately become due and payable without presentment, demand or notice of any kind. If the event of default on which any such acceleration or declaration is based is an event of default other than an event of default described in paragraph (D) or (E) below, then in such event, in addition to the amounts required to be paid by the Company in accordance with the foregoing provisions of this section 12, the Company shall also pay, to the extent permitted by law, an amount (as liquidated damages for the loss of the bargain evidenced hereby and not as a penalty) equal to the make whole premium amount described in section 4 above.

The provisions of this section 12 are subject to the condition that if the principal of and accrued interest on all or any outstanding Notes have been declared or become immediately due and payable by reason of the occurrence of any event of default described in paragraphs (A) through (H), below, the holders of 66-2/3% in aggregate principal amount of the Notes then outstanding may, by written instrument filed with the Company, rescind and annul such acceleration and the consequences thereof, provided that at the time such acceleration is annulled and rescinded:

(a) no judgment or decree has been entered for the payment of any monies due pursuant to the Notes;

(b) all arrears of interest upon all the Notes and all other sums payable under the Notes (except any principal, interest or premium on the Notes which has become due and payable solely by reason of such acceleration under this section 12) shall have been duly paid; and

(c) each and every other event of default shall have been made good, cured or waived pursuant to section 10 hereof;

and provided further, that no such rescission and annulment shall extend to or affect any subsequent event of default or impair any right consequent thereto.

The events listed in paragraph (A) through (H) below are called "events of default":

(A) default shall be made by the Company (1) in the payment of principal of, or premium, if any, on, any Note when and as the same shall become due and payable, whether at maturity thereof, on a date fixed for prepayment (in this Note or in any notice of prepayment), by acceleration or otherwise, or (2) in the payment of interest on any Note when and as the same shall become due and payable and such default in the payment of interest shall continue for a period of 5 days; or

(B) default shall be made in the performance or observance of any covenant, condition or agreement contained in section 9 and such default shall continue for a period of 30 days; or

(C) default shall be made in the performance or observance of any other of the covenants, conditions or agreements in this Note set forth or in the Loan Agreement dated as of October 1, 1998 pursuant to which this Note was initially issued and such default shall continue for a period of 30 days after the earlier of (1) the Company becoming aware of such default, and (2) written notice to the Company from the holder of any Note stating the specific default or defaults; or any representation or warranty made by the Company herein or in said Loan Agreement, or furnished in writing in connection with or pursuant to this Note or said Loan Agreement shall be false in any material respect on the date as of which such representation or warranty is made; or

(D) a decree or order by a court having jurisdiction in the premises shall have been entered adjudging the Company or any restricted subsidiary a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, readjustment, arrangement, composition or similar relief for the Company or any such subsidiary under the federal bankruptcy laws, or any other similar applicable federal or state law, and such decree or order shall have continued undischarged or unstayed for a period of 60 days; or a decree or order of a court having jurisdiction in the premises for the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of the Company or any restricted subsidiary or a substantial part of its property, or for the winding up or liquidation of its affairs, shall have been entered, and such decree or order shall have remained in force undischarged and unstayed for a period of 60 days; or any substantial part of the property of the Company or any restricted subsidiary shall be sequestered or attached and shall not be returned to the possession of the Company or such subsidiary or released from such attachment within 60 days thereafter; or

(E) the Company or any restricted subsidiary shall institute proceedings to be adjudged a voluntary bankrupt, or shall consent to the filing of a bankruptcy proceeding against it, or shall file a petition or answer or consent seeking reorganization, readjustment, arrangement, composition or similar relief under the federal bankruptcy laws, or any other similar applicable federal or state law, or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of it or of a substantial part of its property, or shall make an assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due, or shall voluntarily suspend transaction of its usual

business, or corporate action shall be taken by the Company or any such subsidiary in furtherance of any of the aforesaid purposes; or

(F) the Company or any restricted subsidiary fails to make any payment due on any indebtedness having a principal amount greater than \$2,500,000 or any event shall occur (other than the mere passage of time) or any condition shall exist in respect of any indebtedness of the Company or any restricted subsidiary, or under any agreement securing or relating to such indebtedness and any such event or condition continues beyond any applicable period of grace, if any, the effect of which is to cause (or permit any holder of such indebtedness or other Security or a trustee to cause) such indebtedness or other Security, or a portion thereof, to become due prior to its stated maturity or prior to its regularly scheduled dates of payment; or

(G) final judgment for the payment of money in excess of \$250,000 shall be rendered against the Company or any restricted subsidiary and the same shall remain undischarged for a period of 30 days during which execution shall not be effectively stayed; or

(H) a change of control (as defined in paragraph 4(D)) 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 paragraph 8(K).

In case any one or more of the events of default specified above in this section 12 shall have happened and be continuing, the holder of this Note may proceed to protect and enforce its rights either by suit in equity and/or by action at law, or by other appropriate proceedings, whether for the specific performance (to the extent permitted by law) of any covenant or agreement contained in this Note or in aid of the exercise of any power granted in this Note, or, subject to the first paragraph of this section 12, may proceed to enforce the payment of this Note or to enforce any other legal or equitable right of the holder of this Note.

In case of a default in the payment of any principal of, premium, if any, or interest on, any Note, the Company will pay to the holder thereof such further amount as shall be sufficient to cover the cost and expense of collection, including (without limitation) reasonable attorneys' fees.

Section 13. No Waiver. No course of dealing between the Company and the holder hereof or any delay on the part of the holder hereof in exercising any rights hereunder shall operate as a waiver of any rights of any holder hereof, except to the extent expressly waived in writing by the holder hereof.

Section 14. Loss, Theft, Destruction or Mutilation of Note. Upon receipt by the Company of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Note, and of indemnity or security reasonably satisfactory to the Company (or, if this Note shall then be held by an institutional investor, an indemnity agreement therefrom), and upon reimbursement to the Company of all reasonable expenses incidental thereto, and upon surrender and cancellation of this Note if mutilated, the Company will make and deliver a new Note of like tenor in lieu of this Note. Any Note made and delivered in accordance with the

provisions of this section 14 shall be dated as of the date to which interest has been paid on this Note or, if no interest has theretofore been paid on this Note, then dated the date hereof.

Section 15. Governing Law. This Note shall be construed in accordance with and governed by the laws of the State of Illinois.

Section 16. Successors and Assigns. All the covenants, stipulations, promises and agreements in this Note contained by or on behalf of the Company shall bind its successors and assigns, whether so expressed or not.

Section 17. Headings. The headings of the sections of this Note are inserted for convenience only and shall not be deemed to constitute a part hereof.

IN WITNESS WHEREOF, STEPAN COMPANY has caused this Note to be signed in its corporate name by a duly authorized officer and to be dated as of the day and year first above written.

STEPAN COMPANY

By _____

Its

Exhibit B
(to Loan Agreement)

1. Qualification to do Business:

The Company was incorporated in Illinois on January 14, 1940. On March 31, 1959, the Company's state of incorporation was changed from Illinois to Delaware. The Company is duly licensed or qualified and in good standing as a foreign corporation to do business in the states of California, Georgia, Illinois, Massachusetts, Pennsylvania, New York and New Jersey. Such states are the only jurisdictions where the ownership or leasing of property or the nature of business transacted makes such licensing or qualification necessary.

2. Brief Description of Properties Owned by the Company as of October 1, 1998:

(A) NORTHFIELD, ILLINOIS

The Company's administrative and research center is located on eight-acres located in Northbrook, Illinois, 20 miles northwest of downtown Chicago.

(B) MILLSDALE (JOLIET), ILLINOIS

The Company's midwest manufacturing facilities are located at Millsdale, Illinois, on 626 acres of land situated on the Illinois Deep Waterway and is served by the main lines of the Santa Fe Railroad and the Illinois Central Gulf Railroad. A high pressure, natural gas pipeline passes through the property immediately adjacent to the Company's property.

This plant produces surfactants, phthalic anhydride and urethane foam systems and is the Company's principal production facility.

The surfactant plant has ethoxylation, esterification, sulfation and sulfonation facilities which, together with numerous reaction and mixing vessels, produce a wide range of products for the surfactant and polymer departments.

(C) FIELDSBORO, NEW JERSEY

This facility occupies approximately 39 acres of land with 700 feet of water frontage on the Delaware River and is served by the Camden and Amboy Railroad. This plant manufactures surfactants.

(D) ANAHEIM, CALIFORNIA

This plant produces surfactant products and occupies approximately eight acres. The plant is served by the Atchison, Topeka and Santa Fe Railroad.

(E) WINDER, GEORGIA

This plant site occupies approximately 162 acres of land. This plant manufactures surfactants. The plant is served by the CSX Railroad.

(F) MAYWOOD, NEW JERSEY

The Company's specialty chemicals and flavor products are produced at this plant which is 15 miles west of New York City. The plant, which comprises 19 acres, is served by the New York, Susquehanna and Western Railroad.

(G) VOREPPE, FRANCE

The Company owns a 20-acre specialty chemical plant site at this location.

(H) MATAMOROS, MEXICO

The Company owns a 13 acre specialty chemical plant at this location.

(I) MANIZALES, COLOMBIA

The Company owns a 5 acre specialty chemical plant at this location.

3. Subsidiaries as of October 1, 1998:

The following sets forth all subsidiaries of the Company as of October 1, 1998, the capital stock outstanding and the amount thereof owned by the Company and whether such subsidiaries are consolidated for financial reporting purposes.

	SHARES OUTSTANDING	SHARES OWNED BY COMPANY	CONSOLIDATED
Stepan Mexico, S.A. de C.V.	10,571,000	10,570,014	Yes
Stepan Canada Inc. Common stock, no par value	1	1	Yes
Stepan Europe S.A., Common Stock, par value 100FF	5,400	5,400	Yes
Stepan Colombiana de Quimicos, Ltda. Common Stock, par value 40COP	93,216,310	88,089,413	Yes
Stepan Quimica Ltda. Common Stock, par value 1BRL	245,538	245,538	Yes

4. Designation of Unrestricted Subsidiaries.

The Company hereby designates, pursuant to paragraph (U) of Section 11 of the Notes, for all purposes of the Notes and of the Loan Agreement dated as of October 1, 1998, that no subsidiary shall be a restricted subsidiary.

5. Pending and Threatened Litigation Not Reflected in 10-K.

None.

6. Funded Indebtedness Outstanding on September 15, 1998.

LENDER - NOTE	PRINCIPAL	CURRENT PORTION	FUNDED INDEBTEDNESS
The Northwestern Mutual Life Insurance Company 9.70% Notes due 8/20/02	\$667,000	\$667,000	\$ 0
Aid Association for Lutherans 9.52% Notes due 4/1/01	476,189	476,189	0
The Mutual Life Insurance Company of New York 9.52% Notes due 4/1/01	571,427	571,427	0
MONY Life Insurance Company of America 9.52% Notes due 4/1/01	190,478	190,478	0
The Mutual Life Insurance Company of New York (GIPEN & Co.) 9.52% Notes due 4/1/01	190,478	190,478	0
The Northwestern Mutual Life Insurance Company 9.70% Notes due 4/1/06	6,000,000	1,000,000	5,000,000
Aid Association for Lutherans 7.22% Notes due 4/1/08	5,000,000	500,000	4,500,000
The Mutual Life Insurance Company of New York 7.22% Notes due 4/1/08	5,000,000	500,000	4,500,000

LENDER - NOTE	PRINCIPAL	CURRENT PORTION	FUNDED INDEBTEDNESS
The Northwestern Mutual Life Insurance Company 7.22% Notes due 4/1/08	5,000,000	500,000	4,500,000
Aid Association for Lutherans 7.22% Notes due 8/1/08	5,000,000	500,000	4,500,000
The Mutual Life Insurance Company of New York 7.22% Notes due 8/1/08	5,000,000	500,000	4,500,000
The Northwestern Mutual Life Insurance Company 7.22% Notes due 8/1/08	5,000,000	500,000	4,500,000
Aid Association for Lutherans 7.69% Notes due 6/30/05	3,750,000	0	3,750,000
The Mutual Life Insurance Company of New York 7.69% Notes due 6/30/05	2,500,000	0	2,500,000
The Northwestern Mutual Life Insurance Company 7.69% Notes due 6/30/05	3,750,000	0	3,750,000
Aid Association for Lutherans 7.77% Notes due 6/30/10	11,250,000	0	11,250,000
The Mutual Life Insurance Company of New York 7.77% Notes due 6/30/10	7,500,000	0	7,500,000
The Northwestern Mutual Life Insurance Company 7.77% Notes due 6/30/10	11,250,000	0	11,250,000
Unsecured bank debt Various maturities	28,300,000 -----	0 -----	28,300,000 -----

LENDER - NOTE	PRINCIPAL	CURRENT PORTION	FUNDED INDEBTEDNESS
TOTALS	\$106,395,572 =====	\$6,095,572 =====	\$100,300,000 =====

Exhibit C
(to Loan Agreement)

LEGAL PROCEEDINGS
[DESCRIPTIONS EXCERPTED FROM THE COMPANY'S SEC FILINGS AS INDICATED]

DECEMBER 31, 1992 AMENDED FORM 10-K

Maywood Site. The Company was named as a potentially responsible party ("PRP") for the Company's Maywood, New Jersey property and the property adjacent thereto ("Sites"). The Company previously reported that it agreed to perform a Remedial Investigation/Feasibility Study ("RI/FS") with respect to the Sites. The Company has completed the Remedial Investigation portion of the study and will file its report with the United States Environmental Protection Agency ("USEPA") by March 28, 1993. As disclosed in the 1991 Form 10-K, the Company believed that the cost of the RI/FS would be in the area of \$3,000,000. The Company expended and charged against the environmental reserve \$2,349,000 during the 1991 and 1992. While it is probable that the Company will incur some site cleanup costs, until the RI/FS is completed it is not possible to estimate what the Company's future liability, if any, will be.

State of New York and Town of Tusten v. SCA Services Inc. The suit alleged that SCA Services transported waste allegedly generated by the Company from a New Jersey landfill to an unauthorized site in Cortese, New York, and that the disposal of waste created a release of hazardous substances which necessitated response costs and expenses. The Company has settled all of the alleged claims against it by the United States Environmental Protection Agency, SCA Services, Inc., Town of Tusten, and the State of New York. The settlement does contain a provision to re-open the settlement under certain specific conditions. The dollar amount of this settlement was \$197,000 and was charged against the reserve upon payment in 1993.

Fieldsboro, New Jersey Plant. The characterization study of the xylene contamination most likely will not be completed until September 1993. The Company cannot, at this time, estimate what its future potential liability, if any, will be.

D'Imperio Site. The Company was named as a PRP with regard to the D'Imperio site located in Hamilton Township, New Jersey. The Company and other PRPs declined to enter into an agreement with the Environmental Protection Agency to perform remedial activities at this site. In November 1992, the USEPA, by the United States Justice Department in an action entitled United States of America v. Jerome Lightman, et al. (92 CV 4710 (JBS)), filed suit against the Company, alleging that the Company was responsible, as a generator of waste, for the clean-up costs at the D'Imperio site. The suit is requesting \$5,000,000 from approximately twenty companies as reimbursement for past costs incurred by the USEPA at the D'Imperio site. As discussed further below, because of issues relative to volumes, nexus, and credits at other sites, the Company, on December 31, 1992, could not estimate what its future liability might be.

Ewan Property Superfund Site located in Shamong Township, Burlington County, New Jersey. The USEPA has made a demand to the group of PRPs to recover approximately \$2,000,000 in oversight cost which it has previously spent in regard to this Site. This amount is over and above any sum which may be due to remediate this site. The Company and approximately 20 other PRPs at this Site are endeavoring to reach an allocation to apportion the USEPA's past costs among themselves. The Company and other PRPs have agreed to a non-binding allocation process. As

of December 31, 1992, the PRP group was in an arbitration proceeding to determine its liability vis a vis another hauler which went to this site and the hauler for the Company's and the other 20 companies' waste. As to the Company's involvement at the D'Imperio site (noted above) and Ewan site, one hauler, Lightman Drum, is responsible for the company's involvement at these sites, as well as the Enterprise Avenue site in Pennsylvania (settled and reported in the Company's 1982 Form 10-K). However, given the nature of the issues over nexus, waste types, volumes, and in the case of Ewan per se, the liability between Lightman Drum customers and customers of other waste haulers which used Ewan, two sets of mediation are taking place which impact the obligations of the Company. The parties in the D'Imperio suit are only Lightman Drum customers. Hence, the Company cannot estimate what its probable liability will be because the mediation process is not yet concluded. It is the Company's position that any liability at the D'Imperio site will reduce the Company's liability at the Ewan site and its liability at both sites will be further reduced by credits for payments at the Enterprise Avenue site (settled 1982).

Olin Corporation. The Company received notification in November, 1992 from Olin Corporation that Olin Corporation has incurred costs in cleaning up a plant site formerly owned by the Company in Wilmington, Massachusetts. Olin Company is asserting a claim against Stepan Company for reimbursement of a part of this claim. The claim against Stepan Company did not specify a dollar amount being sought and consequently, the Company cannot estimate what its future potential liability, if any, will be.

DECEMBER 31, 1993 FORM 10-K

Maywood Site. The Company filed its Remedial Investigation Study on February 11, 1994 and has until March 16, 1994 to file its draft Feasibility Study with the USEPA Region II. The Company expended and charged against its environmental reserve \$3,476,000 during the last three years. While it is probable that the Company will incur some site cleanup costs, until the Feasibility Study is completed, it is not possible to estimate what the Company's future liability, if any, would be.

Fieldsboro, New Jersey Site. The Company plans to expend approximately \$220,000 to perform capping activities at this site. The Company is awaiting reapproval from the New Jersey Environmental Protection department. In addition, the Company may spend up to \$70,000 per year to perform well monitoring activities.

D'Imperio Site/United States of America v. Jerome Lightman et. al. (92 CV 4710 [JBS]). The court ordered non-binding mediation in this matter which concluded February 17, 1994. The Company did not agree with the mediators' results and conclusions, which in the Company's opinion, were arbitrary and inconsistent. As a result, the Company made a separate offer to pay for what the Company believes to be its share of past costs, or \$638,000. The twenty other PRPs have submitted their own proposal to the government. The government has 45 days from February 17, 1994 to accept or reject the Company's offer. If no resolution is reached, the matter will be tried. At this time, the Company cannot estimate what its future potential liability might be at this site.

Chemical Control Site, Elizabeth, New Jersey. The only manifest linking the Company to this site clearly showed that the waste shipment in question was rejected. The PRP group for Chemical Control has reviewed this evidence and has determined that this shipment was, in fact, rejected. Thus, while the Company technically remains a PRP at this site, the Company believes it has no exposure at this site based upon the PRP group ruling.

D'Imperio et. al. v. Lightman Drum Company, et. al., New Jersey Superior Court, Camden County (No. L-01791-91). This private suit alleges various defendants improperly disposed of hazardous materials at property owned by D'Imperio resulting in damage to D'Imperio's property, as well as tortious interference with a real estate purchase contract. On February 19, 1994, the Court granted the defendants' motions, including the Company's, for Summary Judgement. Unless the plaintiff files an appeal within forty-five days from February 11, 1994, this case is dismissed. The Company does not anticipate an appeal at this time.

MARCH 31, 1994 FORM 10-Q

Nor-Am Chemical Company and Olin Corporation (Wilmington, Massachusetts). On March 31, 1994, the Commonwealth of Massachusetts, Department of Environmental Affairs, sent to the Company and four other parties, a Notice of Responsibility and Interim Deadline for the Company's former National Polychem site in Wilmington, Massachusetts. This site has been the subject of previous reports. The Company has responded that it believes its obligation has been settled in view of its settlement with Olin Corporation. At this time, the Company cannot estimate what its liability will be, if any, in view of the prior settlement with Olin Corporation.

JUNE 30, 1994 FORM 10-Q

On June 22, 1994, the Commonwealth of Pennsylvania, Department of Environmental Resources, sent to the Company a request for information regarding the Company's Fieldsboro, New Jersey plant use of Reclamation Resource, Inc. and its landfill located at Lenhart Road, Hartfield Township, Montgomery County, Pennsylvania. The Company has responded that it has no knowledge of Reclamation Resource, Inc. or the landfill and, to the Company's knowledge, no use of Reclamation Resource, Inc. or the landfill and, to the Company's knowledge, no use of Reclamation Resource, Inc. was ever made by the Company. Consequently, the Company cannot determine what its liability, if any, will be.

SEPTEMBER 30, 1994 FORM 10-Q

Maywood Sites. Based on newspaper reports, the Company believes that during the year, the United States Environmental Protection Agency ("EPA") and the United States Department of Energy ("DOE") reached an agreement with regard to the clean-up standards for mixed waste, (i.e. chemically and radiologically contaminated waste.) Under the agreement, the DOE would clean-up to a standard of 15 pico curries. The State of New Jersey has objected to this standard and would like a clean-up standard of 5 pico curries. The impact of this split in clean-up standards could have

an impact on the costs which the Company may incur. The Company cannot now, however, estimate what additional liability, if any, will be incurred. On October 24, 1994, 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, and alleged releases at this site. The Company is in the process of gathering information and cannot make a determination as to what liability, if any, it may have.

Ewan, Shamong Township, and D'Imperio, Hamilton Township, sites in New Jersey. Attempts to reach an allocation for costs at these sites among the various parties by mediation have not been successful. As a consequence, the Company believes that it will be involved in protracted litigation involving these sites.

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Maywood Sites. The Company now believes that the Feasibility Study, which sets forth alternative recommendations as to remediation at the sites, and the Company's Maywood, New Jersey site, will be published for public comment in the second calendar quarter of 1995. Following the public comment period, the United States Environmental Protection Agency ("USEPA") will publish the Record of Decision, which will set the remediation program to be followed at the sites, and the Company's Maywood, New Jersey property. While it is probable that the Company will incur some clean-up costs, until publication of the Record of Decision, the Company cannot estimate what its future liability, if any, would be.

In addition, the Company received from Region II of the USEPA, a demand for payment of past oversight costs incurred by the government at the sites and the Company's Maywood, New Jersey property. The demand is for approximately one million seventy-six thousand dollars (\$1,076,000.) The Company believes that part of this amount is the responsibility of other PRPs at the sites, and is in the process of meeting with the USEPA to resolve this issue.

D'Imperio Site/United States of America v. Jerome Lightman, et. al. (92 CV 4710 [JBS]). The offer to settle, as previously reported, was not accepted because of the inability of the PRPs at this site to resolve other outstanding issues. Consequently, the Company and the other twenty PRPs are engaged in litigation regarding each party's share of costs at this site.

Ewan Site, Shamong Township, New Jersey. The USEPA has combined operable unit 1 and operable unit 2 (drum removal and liquid/soil removal) into one operating unit. The contractor hired by the PRP group has commenced remediation at this site.

MARCH 31, 1995 FORM 10-Q

Maywood Sites. Following a meeting with the EPA, the company paid four hundred seventy-eight thousand four hundred thirty-one dollars and 54 cents (\$478,431.54) for past costs attributable to the sites. The company will seek reimbursement for these costs from the other potentially responsible parties ("PRPs") at the sites. As to the balance of the past costs, as these costs relate to

the Stepan Company property for which a Subsection 106 Administrative Order is in place, it is the company's position that under current Third Circuit decisional law, most notably United States v. Rohm and Haas Co., 37 ERC 1193 (3rd Cir. 1993), the USEPA is precluded from collecting these amounts. As of this date, no further demand has been made.

Chemical Control Site. On March 10, 1995, the State of New Jersey sent to the company, along with about 200 other PRPs, a demand for thirty-four million dollars (\$34,000,000) in past costs regarding the Chemical Control Site in Elizabeth, New Jersey. The company has maintained throughout these proceedings that it is not a PRP at this site. This position is based on the fact that the only documentation linking the company to this site is a manifest which clearly demonstrates that the company's shipment was rejected. The company has notified the State of New Jersey of this fact. The company is currently investigating this demand and cannot make a determination as to what liability, if any, it may have.

John J. D'Andrea v. Jerome Lightman et. al (No. ATL-L-000810-95). On March 17, 1995, the company was served in an action in Atlantic County, New Jersey. The company denies the allegations set forth in this action, and also believes it has adequate defenses. Consequently, the company cannot determine what its liability, if any, will be.

JUNE 30, 1995 FORM 10-Q

United States of America v. Jerome Lightman, et. al. (92 CV 4710 [JBS]). The Company has been informed that the United State's Government's estimate of past cost has now risen to approximately \$9.1 million from approximately \$7.4 million. The Company's liability, if any, for this amount will depend on what the final determination of the Company's allocated share is, which is the subject matter of this lawsuit.

Batavia Landfill located in Batavia, New York. On May 30, 1995, the Company received notification that it might be a potentially responsible party at the site. The Company has responded that it has no knowledge of this site or use of the site by the Company. The Company, at this time, does not believe it has any liability with regard to this site.

Chem-Trol Pollution Services Inc. Site. On June 13, 1995, the Company's wholly-owned Canadian subsidiary received notification that Canada Development Corporation, a Canadian entity from which the Company's Canadian subsidiary had purchased assets, might be a potentially responsible party at the Chem-Trol Pollution Services Inc. Site, located in Hamburg, New York. The alleged activities at this site apparently occurred between 1971 and 1972 which pre-dates the incorporation of the Company's Canadian subsidiary by approximately twelve years. The Company does not believe at this time, that it or its wholly-owned Canadian subsidiary has any liability with regard to this site.

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Maywood Sites. In August, 1995, the company has completed and presented to the United States Environmental Protection Agency (USEPA) the Final Draft of the Remedial Investigation Feasibility Study which contains alternatives for the remediation of the company's site and the properties known as the Sears and Adjacent Properties. The company now anticipates that the remedial action plan will be published by the USEPA for public comment in the second quarter of 1996. Thereafter, a Record of Decision and designation of potentially responsible parties (PRPs) to remediate the company's property and the Sears and Adjacent Properties will be made. Although not currently a PRP to remediate, the company believes that it will be named as a PRP, at least with regard to its property.

Ewan and D'Imperio and U.S. v. Jerome Lightman cases. The company anticipates that a trial on the issues of nexus liability and divisibility of liability will take place in the third quarter of 1996, pursuant to the terms of a Case Management Order. As a result of the preceding items, the company has taken a charge to more accurately reflect its best estimate of liability as of this date.

Bofors Nobel Site in Muskegon, Michigan. On September 27, 1995, the company received a 104(e) Request for Information from the United States Environmental Protection Agency (USEPA). The company has reported that it has no knowledge of use of this site by the company. Region V of the USEPA has since sent documents to the company indicating that the company may be a potentially responsible party. The company cannot, at this time, estimate what its liability, if any, will be.

Insurance Recovery Case. On October 11, 1995, the Circuit Court of Cook County, Illinois, Chancery Division, ruled that the company's primary insurance company, The Hartford, has a duty to defend the company at environmental sites at which a lawsuit has been filed.

DECEMBER 31, 1995 FORM 10-K

Maywood Site. No remediation action has occurred at this site, but the company still anticipates that the Record of Decision will be issued in the calendar year 1996.

Ewan and D'Imperio and U.S. v. Jerome Lightman (92 cv 4710 (JBS)) cases. The government in this case has indicated a willingness to settle this case and settlement discussions are underway. However, even if the case with the government is settled, the case regarding issues of liability and allocation between the company and other potentially responsible parties will continue and is still scheduled for trial in the third or fourth quarter of 1996.

Insurance Recovery Case brought by the company against its insurers to recover the cost of remediation at various sites. On February 23, 1996, the Chancery Court Cook County, State of Illinois, ruled that the Hartford Insurance Company is "foreclosed" from contesting coverage under the policies which it wrote over a period of 14 years. The company has made a demand upon the Hartford which has not responded. After issuance of a final judgement order, the Hartford may appeal the decision and the company cannot at this time estimate what the outcome of such appeal, if any, will be.

JUNE 30, 1996 FORM 10-Q

Stepan vs. Admiral Insurance et.al. An action against the company's insurers to recover the cost of remediation expenses at various sites. The company has reached a settlement agreement with the sole remaining primary insurance company defendant in this lawsuit. The terms of the settlement are confidential, but as a result of this and earlier settlements, the company has now exhausted all of its primary coverage. As a result, the company will call upon its excess insurance companies to pay its defense and indemnity costs. Certain of the excess insurance policies at issue in the action contain provisions regarding the payment of defense costs which differ from those of the primary policies. The trial in this matter is scheduled for August 12, 1996.

SEPTEMBER 30, 1996 FORM 10-Q

Stepan v. Admiral et.al. The company has reached an agreement for settlement of its claim against three additional insurers in this action. In addition, on August 13th, the date the case was scheduled to go to trial, the presiding judge in the Chancery Court removed the case to the Law Division of Cook County. A new trial judge was assigned. The company cannot at this time estimate the new trial date for this action, if any. In addition, certain sites were excluded from the case filed in the State of Illinois. The company has filed an action in New Jersey against the remaining insurers in this case for sites that were excluded in Illinois but for which the company believes proper venue and jurisdiction lies in New Jersey.

D'Imperio and U.S. v. Jerome Lightman (92 CV 4710) (JBS)) cases. As reported previously, the Government had indicated a willingness to settle this case and settlement discussions were underway. In response to an offer made by the Government, the company has rejected the offer and the government has withdrawn its offer to settle. Other PRPs involved in this action may or may not wish to settle with the Government and at this time, the company has no opinion as to whether or not the other parties will settle. In any event, because of the company's rejection of the Government's offer, this case is proceeding to trial. The company cannot predict the outcome of this case but believes it has defenses to all of the Government's allegations.

Maywood Site. No remediation has occurred at this site and the company anticipates now that the Record of Decision will be issued sometime in 1997. The company has undertaken to remove drums from adjacent property which drums were accumulated in the process of the remedial investigation feasibility stage pursuant to the terms and conditions of an Administrative Order on Consent.

DECEMBER 31, 1996 FORM 10-K

Stepan v. Admiral et.al. The Company has now reached an agreement for settlement of its claim against all insurers in this action with the exception of one insurer. The case against this one insurer is scheduled to go to trial December, 1997 with a back-up trial date in July, 1997. At the present time, the Company anticipates that it will be going to trial on this action in July, 1997

unless it reaches a settlement agreement with the last remaining defendant. In addition to which, as the Company noticed previously, the Company is pursuing its action in New Jersey against the remaining insurer in this case for sites that were excluded in the Illinois action but for which the Company believes that proper venue and jurisdiction lies in New Jersey.

D'Imperio Site/U.S. v. Jerome Lightman (92CV4710) (JBS). As reported previously, this case is proceeding to trial, most likely in the third quarter of 1997. The Company cannot at this time predict the outcome of this case but believes it has defenses to all of the Government's and other PRPs' allegations.

Maywood Site. The Company has submitted a plan to perform remedial investigation of a pile of leather scraps appearing at this site. Other than this, no remediation has occurred at this site and the Company anticipates that the Record of Decision will be issued in the third or fourth quarter of 1997. The Company estimates that the cost for this leather scrap remediation will be non-material.

MARCH 31, 1997 FORM 10-Q

Twins Inn. On April 30, 1997, the company received from the U.S. Environmental Protection Agency, Region VIII, Denver, Colorado, a Notice of Request for Information Pursuant to Section 104(e) of CERCLA for the Twins Inn Site in Arvada, Jefferson County. The company has responded to this request for information and based upon the information available to the company at this time, the company does not believe it has any liability with regard to this site. The company has no record of being at this site although it did do business with the operator of the Twin Inns Site, but at a geographically different site which is not part of the Twins Inn investigation.

JUNE 30, 1997 FORM 10-Q

On June 15, 1997 the company received a Section 107(e) letter from the United States Environmental Protection Agency, Atlanta, Georgia, (USEPA) requesting information about the company's use of a site entitled, Memphis Container Drum Site (Tri-State Drums), located in Memphis, Shelby County, Tennessee, to dispose of waste. The company has no record of using this particular site and so informed the USEPA. At this time, the company can not estimate what its liabilities of this site will be, if any.

Stepan v. Admiral. The company has settled with the last remaining defendant in this case, and as such, this action has now been dismissed. The company's insurance recovery action in New Jersey continues to be prosecuted.

DECEMBER 31, 1997 FORM 10-K

D'Imperio Superfund Site/United States v. Lightman et al. C.A. No. 92 CV4710 (JVS). On December 12, 1997, the Court enforced a proposed settlement of the United States past cost claims and bound the company to payment of approximately \$639,000. The company has the right to

appeal this decision at a later date. For now, the company will make the payment of approximately \$639,000. The allocation action between the company and other PRPs is continuing and discovery at the site is proceeding.

MARCH 31, 1998 FORM 10-Q

Stepan Company is aware of the fact that three plaintiffs' law firms located in New Jersey have filed a complaint in the Superior Court of New Jersey, Middlesex County, annexing approximately 270 separate case captions, collectively referred to as Gilberg, et. al. V. Stepan, et al. and Accurso, et al. v. Stepan, et al., Civil Action No. 98-139 (KSH), alleging personal and property injury as well as wrongful death, on behalf of certain citizens of Maywood, Rochelle Park and Lodi, New Jersey. Stepan Company has accepted service in Gilberg, et al. pursuant to a court request. The injuries and deaths are alleged to have been the result of radiological and chemical contamination from the company's Maywood, New Jersey site. The company has asserted in legal papers filed by it that plaintiffs did not follow proper procedure under State Court rules and that the multiple suits therefore were not properly filed. The complaint and annexed captions, consistent with applicable federal law, have been removed to the Federal District Court in Newark where the issue of jurisdiction will be determined. The company believes it did not cause the alleged contamination. In addition, the company believes it has other valid defenses. Moreover, as it is uncertain as of this date how many, if any, lawsuits have been properly filed or when the company will be served in any or all of the lawsuits, the company cannot estimate what its liability, if any, will be.

JUNE 30, 1998 FORM 10-Q

Reference is made to the company's Report 10-Q for the quarter ending March 31, 1998, with regard to an action entitled Gilberg, et al.v. Stepan and Accurso, et al. v. Stepan. The company attempted to remove all the cases which had been filed in Middlesex County in New Jersey to the Federal District Court, Newark, New Jersey. The Federal District Court remanded all but 15 cases to Middlesex County. The company sought to appeal this decision to the Third Circuit Court of Appeals by filing a Writ of Mandamus. On July 23, 1998, the Third Circuit Court denied the company's petition. Consequently, at this time, there appear to be 256 cases pending in Middlesex County, New Jersey, and 15 cases pending in the Federal District Court, Newark, New Jersey.

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

Results of Operations

1998 Compared with 1997

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

(Dollars in Thousands)	1998	1997	Percent Change
Surfactants	\$478,289	\$457,109	+5
Polymers	112,625	105,754	+6
Specialty Products	19,537	19,086	+2
Total	\$610,451	\$581,949	+5

Surfactants are a principal ingredient in consumer and industrial cleaning products such as detergents, shampoos, lotions, toothpastes and cosmetics. Other applications include lubricating ingredients and emulsifiers for spreading of insecticides and herbicides.

Surfactants net sales, accounting for 78 percent of total revenues, increased \$21.2 million, or five percent, from year to year. Most of the increase (\$16.9 million) was due to foreign operations which reported a 19 percent rise in net sales on a 25 percent increase in sales volume. All foreign subsidiaries recorded net sales and sales volume increases. Sales for the Colombian subsidiary, consolidated for the first time in 1998, also contributed to the foreign results. There was no material exchange rate impact on net sales. Domestic operations, which constitute 78 percent of total surfactant net sales, posted a \$4.3 million, or one percent, increase on volume that remained flat. Significantly lower export sales volumes to Asia and Central America offset modest volume gains from U.S. customers.

The polymers product group includes phthalic anhydride (PA), polyurethane systems and polyurethane polyols. PA is used in polyester alkyd resins and plasticizers for applications in construction materials and components of automotive, boating and other consumer products. Polyurethane systems provide thermal insulation and are sold to the construction, industrial and appliance markets. Polyurethane polyols are used in the manufacture of laminate board for the construction industry. Polymers net sales, accounting for 18 percent of the company's business, increased six percent on sales volume that was up 22 percent. Sales volume for polyurethane polyols increased 25 percent and was the largest contributor to the polymer sales growth. Polyols accounted for 50 percent of polymers net sales. Polyurethane systems net sales increased six percent on sales volume that improved 13 percent. PA net sales declined nine percent from last year despite a 21 percent sales volume increase. A decrease in average selling prices more than offset the impact of the increase in sales volume. Oversupply in the marketplace together with lower raw material costs led to the decline in selling prices. PA accounted for 33 percent of polymers' 1998 net sales.

Specialty products include flavors, emulsifiers and solubilizers used in the food and pharmaceutical industry. Net sales for the year were \$0.5 million, or two percent, greater than a year ago. Higher selling prices contributed to the modest increase.

Gross profit increased seven percent to \$111.6 million in 1998 from \$104.2 million in 1997. Surfactants gross profit rose three percent from \$77.1 million in 1997 to \$79.7 million in 1998. The increase was driven by a four percent increase in sales volume. Foreign surfactants operations reported a \$1.6 million, or 13 percent, increase between years. Improved sales volumes for Mexican and German operations coupled with the consolidation of Colombian operations for the first time in 1998 led to the increase in foreign operations. The increase was somewhat tempered by reduced margins. Domestic surfactants posted a \$1.0 million, or two percent, rise in gross profit due to increased margins. Lower export sales dampened the domestic result. Polymers gross profit increased 18 percent to \$26.9 million in 1998 from \$22.8 million in 1997. The major factor for the increase was a 70 percent improvement in polyurethane polyols earnings.

Better volumes and margins accounted for the growth. Polyurethane systems posted a one percent increase in gross profit due to higher sales volume partially offset by lower margins. A shift to a less profitable sales mix was responsible for the decline in margins. PA gross profit dropped 26 percent from that reported in 1997. A decline in margins more than offset the increase in volume. Price reductions due to the competitiveness brought on by oversupply in the marketplace led to the decrease in margin. Specialty products gross profit increased by \$0.7 million, or 16 percent, rising to \$5.0 million in 1998 from \$4.3 million in 1997. The improvement was primarily due to increased margins.

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

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

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

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

Net income for 1998 rose to a record of \$23.5 million, or \$2.29 per share (\$2.12 per share diluted), up 15 percent from \$20.4 million, or \$1.97 per share (\$1.86 per share diluted), a year ago. The company expects another strong performance in 1999. Surfactant earnings should benefit from recent acquisitions of higher value-added products. Polymers earnings growth will be somewhat constrained by an increasingly competitive pricing environment. Significant efforts in the last year by the company's purchasing personnel should also lead to reduced raw material and supply costs.

1997 Compared with 1996

Net sales for 1997 rose eight percent to \$581.9 million. The increase was the result of an 11 percent growth in sales volume. Net sales by product group were as follows (prior year data has been reclassified to conform to 1998 presentation):

(Dollars in Thousands)	1997	1996	Percent Change
Surfactants	\$457,109	\$414,892	+10
Polymers	105,754	103,444	+2
Specialty Products	19,086	18,299	+4
Total	\$581,949	\$536,635	+8

Surfactants net sales, representing 79 percent of the company business, were the primary source for overall sales growth. The surfactants sales increase was due primarily to a 16 percent increase in domestic sales volume. The volume gain was achieved mainly from the acquisition of Lonza, Inc.'s

West Coast surfactant business and from increased demand for the company's laundry and cleaning and personal care products. The domestic market accounted for 85 percent of total surfactant volume. Foreign net sales were flat between years, despite a nine percent increase in sales volume. Weaker foreign currency exchange rates, particularly for the French franc, negatively impacted results.

Polymers net sales, accounting for 18 percent of the company's business, increased two percent over 1996, despite volume being down three percent. Higher average selling prices, due largely to the passing on of raw material price increases, and increased sales volume for the more expensive polyurethane system products caused the rise in sales. Polyurethane systems posted significant net sales and volume improvements of 18 percent and 16 percent, respectively, compared to 1996. Offsetting these strong results, however, were decreased sales of both PA and polyurethane polyols. PA sales volume dropped seven percent from 1996 levels due to decreased customer demand plus increased first half of year internal requirements of PA in polyurethane polyols. Polyurethane polyols sales volume fell four percent as a result of the mid-year loss of a large customer. PA and polyurethane polyols accounted for 47 percent and 46 percent, respectively, of 1997 polymer sales volume.

Specialty products revenue increased four percent on increased sales volume.

Gross profit increased eight percent to \$104.2 million, or 18 percent of net sales, in 1997 from \$96.2 million, or 18 percent of net sales, in 1996. Surfactants 1997 gross profit of \$77.1 million was 16 percent higher than 1996 profit of \$66.4 million. Domestic earnings, driven by strong growth in sales volumes, increased 22 percent and accounted for the improvement in total surfactant profit. Foreign gross profit was down six percent to \$12.6 million in 1997 from \$13.4 million in 1996. Despite increased sales volume, European operations surfactant profit dropped \$1.4 million, or 18 percent, due primarily to continued pressure on sales margins. Stepan Mexico earnings were also down slightly while Canadian operations results improved on increased sales volumes. Polymers gross profit fell eight percent to \$22.8 million in 1997 from \$24.9 million in 1996. Decreased sales volumes and margins led to the profit decline. Within the polymer group, PA and polyurethane polyol earnings declined by 21 percent and 12 percent, respectively. In both instances, lower volumes and margins caused the decrease. Price reductions necessitated by competitive situations led to PA's drop in margin. Higher raw material costs, which could only be partially passed along to customers, caused polyurethane polyols margin decrease. Polyurethane systems profit, up 59 percent from 1996 due to better margins and volumes, partially offset the results of the larger, two polymer product lines. A shift to a more profitable sales mix generated polyurethane systems margin improvement. Specialty products gross profit declined 12 percent to \$4.3 million in 1997 from \$4.9 million in 1996. Lower margins more than offset the increase in sales volume.

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

Operating income was \$44.4 million in 1997, a 10 percent increase over 1996. Operating expenses, consisting of marketing, administrative and research expenses, rose seven percent from those reported in 1996. Administrative expenses climbed 15 percent as a result of 1996 benefiting from \$4.2 million of insurance recoveries. Lower domestic 1997 travel and computer operations expenses and lower overall foreign expenses partially offset the impact of the

1996 insurance recoveries. Marketing expenses and research and development expenses each grew four percent over 1996. These increases were primarily the result of higher salaries and fringe benefits expenses.

Negatively impacting pre-tax earnings was \$1.0 million of increased losses of the company's equity joint ventures. Foreign exchange losses of \$3.1 million for the Philippine joint venture, due to the devaluation of the Philippine peso, led to the increased loss.

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

Net income for 1997 rose to \$20.4 million, or \$1.97 per share (\$1.86 per share diluted), up seven percent from \$19.1 million, or \$1.80 per share (\$1.71 per share diluted), reported for 1996.

Fourth Quarter 1998 Compared with 1997

For the quarter ended December 31, 1998, the company reported net income of \$5.6 million, or \$0.55 per share (\$0.51 per share diluted), compared to \$3.5 million, or \$0.33 per share (\$0.32 per share diluted) in the fourth quarter of 1997. Net sales for the quarter grew six percent to \$150.4 million from \$142.1 million a year ago. Gross profit increased 15 percent to \$28.3 million compared with \$24.5 million for the fourth quarter of 1997. Surfactants earnings were up eight percent due to a strong performance by domestic operations and consolidation of the Colombian subsidiary. Polymers reported a 45 percent increase in gross profit mainly due to strong performance of polyurethane polyols based on increased sales volume and improved margins. Specialty products gross profit was essentially unchanged. Operating expenses were 11 percent higher than in the fourth quarter of 1997, primarily due to the increase of administrative expenses, in particular, unusually high severance costs and increased payroll expense and consulting fees in 1998.

Liquidity and Financial Condition

For the year ended December 31, 1998, net cash from operations totaled \$58.8 million, a decrease of \$4.0 million from year to year. However, cash flows for 1997 included \$9.8 million in insurance recoveries, reflected in the \$4.0 million accounts receivable decrease for that period. Net income was up by \$3.0 million in 1998 compared to the prior year, while customer prepayments credited to deferred revenue totaled \$0.8 million for 1998 compared to \$3.3 million in 1997. Excluding the combined effects of both insurance recoveries and customer prepayments, net cash from operations increased by \$8.3 million during 1998. During 1998, changes in working capital produced a \$1.4 million cash source compared to \$4.9 million, including \$9.8 million in insurance recoveries, for 1997.

Capital spending totaled \$44.1 million during 1998, up by \$8.5 million from the 1997 total. Investing activities for the current year included the acquisition of certain product lines and related intangible assets from DuPont and the acquisition of 100 percent ownership (up from 50 percent) of Stepan Colombia.

During 1998, consolidated debt increased by \$13.7 million, to \$114.5 million. As of December 31, 1998, the ratio of long-term debt to long-term debt plus shareholders' equity was 42.1 percent, up from 40.8 percent as of December 31, 1997.

On October 1, 1998, the company borrowed \$30 million from two U.S. insurance companies, at 6.59 percent with a term of 15 years. The proceeds of this borrowing were used primarily to reduce short-term domestic bank debt which had totaled \$25.8 million as of September 30, 1998. The terms of these new, unsecured loan agreements are substantially the same as those in the company's last private placement, which was completed in 1995.

The company maintains contractual relationships with its domestic banks which provide for \$45 million of committed, revolving credit which may be drawn upon as needed for general corporate purposes. The company entered into this new agreement on January 9, 1998, and canceled the previous agreement at the same time. The terms and conditions of the new agreement are substantially the same as for the previous agreement. Interest rate spreads and commitment fees are dependent on the company's capitalization structure, and are lower than under the old agreement.

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

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

Market Risk Analysis

FOREIGN CURRENCY EXCHANGE RISK

Forward exchange contracts are used from time to time to manage currency exposures for financial instruments denominated in currencies other than the entity's functional currency. The counter-parties to any such contracts are major financial institutions, therefore the credit risk of such contracts is considered insignificant. Corporate policy prohibits the purchase or sale of leveraged derivative financial instruments as well as the purchase or sale of any derivative financial instrument for trading purposes.

Any unrealized gains or losses resulting from the use of hedge instruments are deferred and included in the measurement of the related foreign currency transaction. Gains or losses on unhedged foreign currency transactions are included in income. As of December 31, 1998, the company had no outstanding forward exchange contracts.

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

INTEREST RATES

The company's debt was composed of fixed-rate and variable-rate borrowings totaling \$110.6 million and \$3.9 million, respectively, as of December 31, 1998. Over the course of 1999, it is projected that interest on variable-rate borrowings will comprise about 12 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 \$116.0 million as of December 31, 1998, and exceeded the carrying value by approximately \$5.4 million. Market risk was estimated as the potential increase to the fair value which would result from a hypothetical 10 percent decrease in the company's weighted average long-term borrowing rates at December 31, 1998, or \$3.5 million. Such a rate decrease would be immaterial to future operating results or cash flow.

COMMODITY PRICE RISK

Certain raw materials are subject to price volatility caused by weather, petroleum prices and other unpredictable factors. The commodity price risk is not material to the company's consolidated financial position, results of operations or cash flow.

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 1998, the company's expenditures for capital projects related to the environment were \$7.1 million and should approximate \$4.0 to \$5.0 million for 1999. These projects are capitalized and typically depreciated over 10 years. Capital spending on such projects is likely to continue at these levels in future years. Recurring costs associated with the operation and maintenance of facilities for waste treatment and disposal and managing environmental compliance in ongoing operations at our manufacturing locations were approximately \$6.9 million for 1998 compared to \$7.5 million for 1997. While difficult to project, it is not anticipated that these recurring expenses will increase significantly in the future.

The company has been named by the government as a potentially responsible party at 16 waste disposal sites where cleanup costs have been or may be incurred under the federal Comprehensive Environmental Response, Compensation and Liability Act and similar state statutes. In addition, damages are being claimed against the company in general liability actions for alleged personal injury or property damage in the case of some disposal and plant sites. The company believes that it has made adequate provisions for the costs it may incur with respect to the sites. After partial remediation payments at certain sites, the company has estimated a range of possible environmental and legal losses from \$4.1 million to \$26.4 million at December 31, 1998, compared to \$4.2 million to \$25.8 million at December 31, 1997. At December 31, 1998, the company's reserve was \$17.6 million for legal and environmental matters compared to \$20.6 million at December 31, 1997. During 1998, expenditures related to legal and environmental matters approximated \$3.6 million compared to \$3.0 million expended in 1997. While it is difficult to forecast the timing of the expenditures, the company believes that \$3.0 million of the \$17.6 million reserve is likely to be paid out in 1999. The balance of the reserve would probably be paid out over many years (see also Note 12 of the Notes to Consolidated Financial Statements).

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

European Union

The European Council announced on December 31, 1998, irrevocably fixed conversion rates between the National Currency Units (NCU) of the 11 participating countries and the euro. Through July 1, 2002, the official "Transition Period", these National Currency Units will be considered to be sub-units of the euro. During the Transition Period, cash transactions for these 11 currencies may be settled in either NCUs or euros, with no compulsion or prohibition from either party. Stepan Company's U.S. and European banks are euro-ready and transaction costs will not be affected.

The company expects that this conversion will result in generally higher competition within the single-currency zone, as a result of greater cross-border price transparency. This trend is expected to impact both the company's sales and raw

material purchases with the net effect expected to be immaterial to both operating results and cash flows. The company will experience decreased currency risk on certain sales and raw material purchases within the single-currency zone.

The company's internal computer systems are capable of handling currency conversions according to the rules announced by European Council. The company is capable of invoicing its customers and receiving payments, as well as making payments to suppliers, within the single-currency zone in either euro or the applicable NCU.

Year 2000 Readiness Disclosure

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

Implementation of approximately 70 percent of "IT" systems is fully complete and the remainder of the systems is in the process of remediation and testing. It is expected that 95 percent of the "IT" systems will be compliant with Year 2000 requirements in June 1999 and implementation of the remaining systems is planned for the third quarter of 1999.

The non-"IT" systems are comprised of manufacturing process control, telephone, security, laboratory and other embedded chip systems. Identification and assessment of these systems are essentially complete. Implementation is expected to be complete the third quarter of 1999.

The company has initiated formal communications with suppliers and service providers to determine the extent of their efforts in resolving Year 2000 issues. The assessment phase, which includes evaluation of responses and meetings with significant suppliers, is in progress and will continue through the first quarter of 1999. Contingency plans will be developed if responses indicate the probability of non-compliance with Year 2000 requirements.

Costs for the Year 2000 project are currently estimated to be \$2.9 million with \$1.5 million expended to date. Of the total estimated cost, \$1.9 million will be capitalized and the remaining will be expensed as incurred. These costs are not material to the overall "IT" budget and no projects have been deferred due to year 2000 efforts. The company's actual cost to achieve Year 2000 compliance could differ significantly from amounts disclosed above due to new issues which have not yet been identified.

Although the company is in the process of implementing its Year 2000 project plan, there can be no assurance that all phases of the plan will be completed prior to the Year 2000 or that if completed prior to the Year 2000 that disruption will not occur. In addition, there can be no assurance that the company's customers, suppliers and service providers will successfully resolve their own Year 2000 issues in a manner which would not cause material impact to the company's operations and financial results. Recognizing these uncertainties, the company is in the process of identifying the most reasonable likely worst case scenarios. Contingency plans for these scenarios will be developed as warranted throughout 1999.

Report of Management

Management Report on Financial Statements

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

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

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

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

Walter J. Klein
Vice President - Finance

February 11, 1999

Report of Independent Public Accountants

To the Stockholders of Stepan Company:

We have audited the accompanying consolidated balance sheets of Stepan Company (a Delaware corporation) and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, cash flows and stockholders' equity, for each of the three years in the period ended December 31, 1998. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Stepan Company and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Chicago, Illinois,
February 11, 1999

Consolidated Balance Sheets
December 31, 1998 and 1997

(Dollars in Thousands)	1998	1997
Assets		
Current Assets:		
Cash and cash equivalents	\$ 983	\$ 5,507
Receivables, less allowances of \$2,263 in 1998 and \$2,121 in 1997	81,890	81,018
Inventories (Note 3)	52,496	48,999
Deferred income taxes (Note 6)	10,572	6,636
Other current assets	3,817	4,322
Total current assets	149,758	146,482
Property, Plant and Equipment:		
Land	6,553	6,108
Buildings and improvements	61,838	58,670
Machinery and equipment	491,899	459,945
Construction in progress	8,311	2,943
	568,601	527,666
Less: Accumulated depreciation	353,505	321,065
Property, plant and equipment, net	215,096	206,601
Other Assets	39,507	21,853
Total assets	\$404,361	\$374,936
Liabilities and Stockholders' Equity		
Current Liabilities:		
Current maturities of long-term debt (Note 4)	\$ 6,807	\$ 5,957
Accounts payable	43,977	42,894
Accrued liabilities (Note 10)	37,160	33,842
Total current liabilities	87,944	82,693
Deferred Income Taxes (Note 6)	39,920	32,258
Long-term Debt, less current maturities (Note 4)	107,708	94,898
Other Non-current Liabilities (Note 11)	20,805	27,489
Stockholders' Equity (Note 7):		
5 1/2 percent convertible preferred stock, cumulative, voting, without par value; authorized 2,000,000 shares; issued 784,417 in 1998 and 788,434 shares in 1997	19,611	19,711
Common stock, \$1 par value; authorized 15,000,000 shares; issued 9,997,736 shares in 1998 and 10,341,952 shares in 1997	9,998	10,342
Additional paid-in capital	10,962	8,091
Accumulated other comprehensive loss	(9,050)	(7,337)
Retained earnings	127,478	120,854
	158,999	151,661
Less: Treasury stock, at cost	11,015	14,063
Stockholders' equity	147,984	137,598
Total liabilities and stockholders' equity	\$404,361	\$374,936

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

Consolidated Statements of Income
For the years ended December 31, 1998, 1997 and 1996

(Dollars in Thousands, except per share amounts)	1998	1997	1996
Net Sales	\$610,451	\$581,949	\$536,635
Cost of Sales	498,856	477,778	440,420
Gross Profit	111,595	104,171	96,215
Operating Expenses:			
Marketing	23,365	20,394	19,577
Administrative	21,825	18,964	16,549
Research, development and technical services (Note 1)	20,982	20,443	19,703
	66,172	59,801	55,829
Operating Income	45,423	44,370	40,386
Other Income (Expenses):			
Interest, net (Note 4)	(7,453)	(7,595)	(7,243)
Income (loss) from equity joint ventures (Note 1)	796	(1,901)	(882)
	(6,657)	(9,496)	(8,125)
Income Before Provision for Income Taxes	38,766	34,874	32,261
Provision for Income Taxes (Note 6)	15,312	14,464	13,194
Net Income	\$ 23,454	\$ 20,410	\$ 19,067
Net Income Per Common Share:			
Basic	\$ 2.29	\$ 1.97	\$ 1.80
Diluted	\$ 2.12	\$ 1.86	\$ 1.71
Average Common Shares Outstanding (Note 1)	9,843	9,831	10,002

Combined Sales

(Dollars in Thousands)

	Surfactants	Polymers	Specialty Products	Consolidated Total
1994	336,224	78,778	28,946	443,948
1995	394,928	115,833	17,457	528,218
1996	414,892	103,444	18,299	536,635
1997	457,109	105,754	19,086	581,949
1998	478,289	112,625	19,537	610,451

1998 Sales Dollar Distribution

(Dollars in Thousands)

Material	\$367,109	60.1%
Other Expenses	\$ 76,984	12.6%
Payroll and Fringes	\$ 90,245	14.8%
Depreciation and Amortization	\$ 37,347	6.1%
Income Taxes	\$ 15,312	2.5%
Net Income	\$ 23,454	3.9%

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

Consolidated Statements of Cash Flows
For the years ended December 31, 1998, 1997 and 1996

(Dollars in Thousands)	1998	1997	1996
Net Cash Flows from Operating Activities			
Net income	\$ 23,454	\$ 20,410	\$ 19,067
Depreciation and amortization	37,347	35,281	32,138
Deferred revenue recognition	(4,327)	(3,611)	(2,896)
Customer prepayments	800	3,292	7,375
Deferred income taxes	4,244	1,114	(1,710)
Environmental and legal liabilities	(3,035)	(428)	12,925
Other non-cash items	(998)	1,860	548
Changes in Working Capital:			
Receivables, net	179	3,999	(5,203)
Inventories	(2,840)	1,243	4,121
Accounts payable and accrued liabilities	2,731	1,069	(1,113)
Other	1,292	(1,364)	535
Net Cash Provided by Operating Activities	58,847	62,865	65,787
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(44,056)	(35,589)	(44,923)
Investment in acquisitions	(21,195)	(4,999)	(3,859)
Other non-current assets	1,587	344	268
Net Cash Used for Investing Activities	(63,664)	(40,244)	(48,514)
Cash Flows from Financing and Other Related Activities			
Revolving debt and notes payable to banks, net	(10,310)	1,210	(800)
Other debt borrowings	30,000	-	3,734
Other debt repayments	(6,151)	(9,660)	(9,190)
Purchases of treasury stock, net	(8,402)	(8,863)	(3,492)
Dividends paid	(6,432)	(6,069)	(5,846)
Stock option exercises	1,728	2,252	464
Other non-cash items	(140)	(762)	(513)
Net Cash Provided by (Used for) Financing and Other Related Activities	293	(21,892)	(15,643)
Net Increase (Decrease) in Cash and Cash Equivalents	(4,524)	729	1,630
Cash and Cash Equivalents at Beginning of Year	5,507	4,778	3,148
Cash and Cash Equivalents at End of Year	\$ 983	\$ 5,507	\$ 4,778
Supplemental Cash Flow Information			
Cash payments of income taxes, net of refunds	\$ 9,295	\$ 16,059	\$ 12,417
Cash payments of interest	\$ 7,781	\$ 8,306	\$ 10,838

Capital Expenditures
(Dollars in Thousands)

1993	25,435
1994	42,884
1995	39,247
1996	44,923
1997	35,589
1998	44,056

Compound Annual Growth
Five Years +12%

Equity Per Share
(Dollars)

1993	9.65
1994	10.27
1995	11.25
1996	12.24
1997	13.01
1998	14.18

Compound Annual Growth
Five Years +8%

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

Consolidated Statements of Stockholders' Equity
For the years ended December 31, 1998, 1997 and 1996

(Dollars in Thousands)	Convertible Preferred Stock	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Comprehensive Income

Balance, January 1, 1996	\$19,929	\$10,087	\$ 4,568	\$ (1,708)	(3,691)	\$ 93,292	--
Sale of 44,826 shares under stock option plan	--	45	419	--	--	--	--
Purchase of 184,587 shares of common treasury stock, net of sales	--	--	74	(3,492)	--	--	--
Conversion of preferred stock to common stock	(5)	--	5	--	--	--	--
Net income	--	--	--	--	--	19,067	\$19,067
Other comprehensive income:							
Foreign currency translation adjustments	--	--	--	--	(1,129)	--	(1,129)
Comprehensive income	--	--	--	--	--	--	\$17,938
							=====
Cash dividends paid	--	--	--	--	--	--	--
Preferred stock (\$1.375 per share)	--	--	--	--	--	(1,068)	--
Common stock (47.75c per share)	--	--	--	--	--	(4,778)	--

Balance, December 31, 1996	19,924	10,132	5,066	(5,200)	(4,820)	106,513	--
Sale of 200,500 shares under stock option plan	--	200	2,052	--	--	--	--
Purchase of 246,901 shares of common and 113,666 shares of preferred treasury stock, net of sales	--	--	101	(8,863)	--	--	--
Conversion of preferred stock to common stock	(213)	10	203	--	--	--	--
Net income	--	--	--	--	--	20,410	\$20,410
Other comprehensive income:							
Foreign currency translation adjustments	--	--	--	--	(2,517)	--	(2,517)
Comprehensive income	--	--	--	--	--	--	\$17,893
							=====
Cash dividends paid	--	--	--	--	--	--	--
Preferred stock (\$1.375 per share)	--	--	--	--	--	(1,027)	--
Common stock (51.25c per share)	--	--	--	--	--	(5,042)	--
Non-qualified stock option tax benefit	--	--	669	--	--	--	--

Balance, December 31, 1997	19,711	10,342	8,091	(14,063)	(7,337)	120,854	--
Sale of 151,200 shares under stock option plan	--	151	2,322	--	--	--	--
Purchase of 288,744 shares of common treasury stock, net of sales	--	--	462	(8,402)	--	--	--
Retirement of 500,000 shares of common treasury stock	--	(500)	(552)	11,450	--	(10,398)	--
Conversion of preferred stock to common stock	(100)	5	96	--	--	--	--
Net income	--	--	--	--	--	23,454	\$23,454
Other comprehensive income:							
Foreign currency translation adjustments	--	--	--	--	(1,713)	--	(1,713)
Comprehensive income	--	--	--	--	--	--	\$21,741
							=====
Cash dividends paid	--	--	--	--	--	--	--
Preferred stock (\$1.375 per share)	--	--	--	--	--	(896)	--
Common stock (56.25c per share)	--	--	--	--	--	(5,536)	--
Non-qualified stock option tax benefit	--	--	543	--	--	--	--

Balance, December 31, 1998	\$19,611	\$ 9,998	\$10,962	\$(11,015)	\$(9,050)	\$127,478	--
=====							

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

1. Summary of Significant Accounting Policies

Nature of Operations

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

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

Principles of Consolidation

The consolidated financial statements include the accounts of Stepan Company and its wholly-owned foreign subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. The investment in the 50 percent owned joint venture in the Philippines is accounted for on the equity method and is included in the "Other Assets" caption on the Consolidated Balance Sheet. The company's share of the net earnings of the investment is included in consolidated net income. Operations in Colombia were accounted for using the equity method until May 8, 1998, when majority interest was obtained. See Note 2 for information on acquisitions.

Cash and Cash Equivalents

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

Inventories

Inventories are valued at cost, which is not in excess of market value, and include material, labor and plant overhead costs. The last-in, first-out (LIFO) method is used to determine the cost of most company inventories. The first-in, first-out (FIFO) method is used for all other inventories. Inventories priced at LIFO as of December 31, 1998 and 1997, amounted to 86 percent and 91 percent of total inventories, respectively.

Property, Plant and Equipment

Depreciation of physical properties is provided on a straight-line basis over the estimated useful lives of various assets. Lives used for calculating depreciation are 30 years for buildings, 15 years for building improvements and from three to 15 years for machinery and equipment. Major renewals and betterments are capitalized in the property accounts, while maintenance and repairs (\$18,335,000, \$18,775,000 and \$20,509,000 in 1998, 1997 and 1996, respectively), which do not renew or extend the life of the respective assets, are charged to operations currently. The cost of property retired or sold and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income.

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

Environmental Expenditures

Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are probable and the cost or range of possible costs can be reasonably estimated. When no amount within the range is a better estimate than any other amount, at least the minimum is accrued. Some of the factors on which the company bases its estimates include information provided by feasibility studies, potentially responsible party negotiations and the development of remedial action plans. Expenditures that mitigate or prevent environmental contamination and that benefit future operations are capitalized. Capitalized expenditures are depreciated generally utilizing a 10 year life. See Note 12 for contingency information.

Intangible Assets

Included in other assets are intangible assets consisting of patents, agreements not to compete, trademarks, customer lists and goodwill, all of which were acquired as part of business acquisitions. These assets are presented net of amortization provided on a straight-line basis over their estimated useful lives generally ranging from five to 15 years.

Research and Development Costs

The company's research and development costs are expensed as incurred. These expenses are aimed at discovery and commercialization of new knowledge with the intent that such effort will be useful in developing a new product or in bringing about a significant improvement to an existing product or process. Total expenses were \$12,219,000, \$12,404,000 and \$12,469,000 in 1998, 1997 and 1996, respectively. The balance of expenses reflected on the Consolidated Statements of Income relates to technical services which include routine product testing, quality control and sales support service.

Income Taxes

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

Translation of Foreign Currencies

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

Derivative Financial Instruments

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

Long-Lived Assets

Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," requires that operating assets and associated goodwill be written down to fair value whenever an impairment review indicates that the carrying value cannot be recovered on an undiscounted cash flow basis. The company has determined that no impairment loss has needed to be recognized for applicable assets of continuing operations.

Stock-Based Compensation

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

Per Share Data

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

Comprehensive Income

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS No. 130), which is effective for fiscal years beginning after December 15, 1997. SFAS No. 130, which the company adopted in 1998, requires that comprehensive

income be reported in a financial statement that is displayed with the same prominence as other financial statements. Comprehensive income includes net income and all other nonowner changes in equity that are not reported in net income. For the twelve months ended December 31, 1998, 1997 and 1996, the company's comprehensive income included net income and foreign currency translation gains and losses. The company has elected to disclose comprehensive income in the Consolidated Statements of Stockholders' Equity.

Segment Reporting

In 1998, the company adopted Statement of Financial Accounting Standards No. 131 "Disclosures about Segments of an Enterprise and Related Information" (SFAS No. 131), effective for periods beginning after December 15, 1997. The company is required to report 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. SFAS No. 131 requires the company to report a measure of segment profit or loss, certain revenue and expense items and segment assets. Such data must be reconciled to corresponding amounts in the company's general-purpose consolidated financial statements. Enterprise-wide financial information about the revenues derived from the company's products, about the countries in which the company earns revenues and holds assets and about major customers must also be disclosed. See Note 13 for segment reporting information.

Pension Plans

In 1998, the company adopted Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits", effective for fiscal years beginning after December 15, 1997. The statement revises disclosure requirements for pension and other postretirement benefit plans. There is no change to the measurement or recognition of such plans. See Note 9 for pension plans disclosure.

Reclassifications

Certain amounts in the 1997 and 1996 financial statements have been reclassified to conform to the 1998 presentation.

Use of Estimates

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

2. Acquisitions

On May 8, 1998, the company purchased an additional 34.5 percent of the outstanding stock of Stepan Colombia raising its stake in the Colombia company to 84.5 percent. On August 19, 1998, the remaining shares (15.5 percent) were acquired. As a result, Stepan Colombia became a wholly-owned subsidiary. The transaction was accounted for as a step acquisition purchase, and Stepan Colombia's financial results have been reported on a consolidated basis from the date that controlling interest was acquired. Prior to the May 1998 purchase date, the investment was accounted for under the equity method. The reported consolidated results of operations for 1996, 1997 and 1998 would not have been materially affected had this transaction occurred at the beginning of 1996.

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

On November 11, 1998, the company's wholly owned subsidiary, Stepan Canada, Inc., acquired the Canadian anionic and cationic surfactant business from Boehme Filatex Canada, Inc.

The acquired product lines are sold primarily into the personal care and the institutional cleaning product markets. No manufacturing facilities were included in this acquisition. The transaction was recorded as a purchase of intangible assets, including goodwill, non-compete agreement, know-how, patents and trademarks.

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

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

3. Inventories

The composition of inventories was as follows:

(Dollars in Thousands)	December 31	
	1998	1997
Finished products	\$33,444	\$31,110
Raw materials	19,052	17,889
Total inventories	\$52,496	\$48,999

If the first-in, first-out (FIFO) inventory valuation method had been used, inventories would have been approximately \$10,000,000 and \$11,900,000 higher than reported at December 31, 1998 and 1997, respectively.

4. Debt

Debt was composed of the following:

(Dollars in Thousands)	Maturity Dates	December 31	
		1998	1997
Unsecured promissory notes			
6.59%	2003-2013	\$ 30,000	\$ 0
7.22%	1999-2008	30,000	30,000
7.77%	2000-2010	30,000	30,000
7.69%	2001-2005	10,000	10,000
9.70%	1999-2004	6,000	8,000
9.52%	1999	1,429	3,572
9.70%	1999	667	1,667
Unsecured bank debt	2003	3,100	10,800
Debt of foreign subsidiaries payable in foreign currency	1999-2006	3,319	6,816
Total debt		114,515	100,855
Less current maturities		6,807	5,957
Long-term debt		\$107,708	\$ 94,898

Unsecured bank debt at December 31, 1998, consisted of borrowings under a committed \$45,000,000 revolving credit agreement with interest at varying rates averaging 6.31 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 also had other borrowings under notes payable to banks under which there were no outstanding balances at December 31, 1998 and 1997.

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 \$44,346,000 and \$52,623,000 at December 31, 1998 and 1997, respectively. The company is in compliance with all loan agreements.

Debt at December 31, 1998, matures as follows: \$6,807,000 in 1999; \$7,434,000 in 2000; \$9,099,000 in 2001; \$9,069,000 in 2002; \$14,893,000 in 2003 and \$67,213,000 after 2003.

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

(Dollars in Thousands)	1998	1997	1996
Interest expense	\$8,235	\$8,205	\$ 9,165
Interest income	(364)	(173)	(671)
Capitalized interest	7,871 (418)	8,032 (437)	8,494 (1,251)
Interest, net	\$7,453	\$7,595	\$ 7,243

5. Leased Properties

The company leases certain property and equipment (primarily transportation equipment, buildings and computer equipment) under operating leases. Total rental expense was \$3,918,000, \$3,884,000 and \$3,474,000 in 1998, 1997 and 1996, respectively.

Minimum future rental payments under operating leases with terms in excess of one year as of December 31, 1998, are:

(Dollars in Thousands)	Year	Amount
	1999	\$ 3,005
	2000	2,355
	2001	1,797
	2002	1,031
	2003	987
	Subsequent to 2003	5,813
Total minimum future rental payments		\$14,988

6. Income Taxes

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

Taxes on Income (Dollars in Thousands)	1998	1997	1996
Federal			
Current	\$ 8,544	\$11,321	\$ 9,785
Deferred	3,285	(321)	54
State			
Current	1,704	1,953	1,863
Deferred	718	502	(345)
Foreign			
Current	1,047	1,451	2,700
Deferred	14	(442)	(863)
Total	\$15,312	\$14,464	\$13,194

Income before Taxes (Dollars in Thousands)	1998	1997	1996
Domestic	\$35,766	\$31,758	\$28,420
Foreign	3,000	3,116	3,841
Total	\$38,766	\$34,874	\$32,261

No federal income taxes have been provided on \$26,483,000 of undistributed earnings of the company's foreign subsidiaries. In general, the company reinvests earnings of foreign subsidiaries in their operations indefinitely. However, the company will repatriate earnings from a subsidiary where excess cash has accumulated and it is advantageous for tax or foreign exchange reasons. Because of the probable availability of foreign tax credits, it is not practicable to estimate the amount, if any, of the deferred tax liability on earnings reinvested indefinitely.

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

(Dollars in Thousands)	Amount	1998 %	Amount	1997 %	Amount	1996 %
Income tax provision at statutory tax rate	\$13,568	35.0	\$12,206	35.0	\$11,292	35.0
State taxes on income						
less applicable federal tax benefit	1,574	4.1	1,215	3.5	987	3.1
Effect of equity in foreign joint ventures	(278)	-0.7	665	1.9	308	1.0
Other items	448	1.1	378	1.1	607	1.8
Total income tax provision	\$15,312	39.5	\$14,464	41.5	\$13,194	40.9

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

(Dollars in Thousands)	1998	1997
Current deferred income taxes		
Gross assets	\$ 11,203	\$ 7,469
Gross liabilities	(631)	(833)
Total current deferred tax assets	10,572	6,636
Non-current deferred income taxes		
Gross assets	7,073	12,558
Gross liabilities	(46,993)	(44,816)
Total non-current deferred tax liabilities	(39,920)	(32,258)
Net deferred tax liability	\$ (29,348)	\$ (25,622)

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

(Dollars in Thousands)	1998	1997
Tax over book depreciation	\$ (43,884)	\$ (40,705)
Safe Harbor leases	(2,795)	(2,971)
SFAS No. 87 pension accounting	(3,043)	(2,894)
State income tax accrual	2,062	1,444
Deferred revenue	4,505	5,942
Book reserves deductible in other periods	13,966	14,277
Other, net	(159)	(715)
Net deferred tax liability	\$ (29,348)	\$ (25,622)

7. Stockholders' Equity

The company's preferred stock is convertible at the option of the holder at any time (unless previously redeemed) into shares of common stock at a conversion of 1.14175 shares of common stock for each share of preferred stock. Dividends on preferred stock accrue at a rate of \$1.375 per share per annum which are cumulative from the date of original issue. The company may not declare and pay any dividend or make any distribution of assets (other than dividends or other distribution payable in shares of common stock), or redeem, purchase or otherwise acquire, shares of common stock, unless all accumulated and unpaid preferred dividends have been paid or are contemporaneously declared and paid. The preferred stock is subject to optional redemption by the company, in whole or in part, at any time on or after September 1, 1997, at a redemption price of \$25.69 per share reduced annually by \$0.14 per share to a minimum of \$25 per share on or after September 1, 2002, plus accrued and unpaid dividends thereon to the date fixed for redemption. Preferred stock is entitled to 1.14175 votes per share on all matters submitted to stockholders for action, and votes together with the common stock as a single class, except as otherwise provided by law or the Certificate of Incorporation of the company. There is no mandatory redemption or sinking fund obligation with respect to the preferred stock.

On December 8, 1998, 500,000 shares of common stock held in treasury were retired in accordance with the Board of Directors' authorization. At December 31, 1998, treasury stock consists of 133,874 shares of preferred stock and 305,048 shares of common stock. At December 31, 1997, treasury stock consisted of 133,874 shares of preferred stock and 516,304 shares of common stock.

8. Stock Option Plans

The company has two fixed stock option plans: the 1982 Plan and the 1992 Plan. The 1992 Plan extends participation to directors who are not employees of the company. No further grants may be made under the 1982 Plan. The 1992 Plan authorizes the award of up to 1,600,000 shares of the company's common stock for stock options ("options") and stock appreciation rights ("SAR"). SARs entitle the employee to receive an amount equal to the difference between the fair market value of a share of stock at the time the SAR is exercised and the exercise price specified at the time the SAR is granted. Options are granted at the market price on the date of grant. An option may not be exercised within two years from the date of grant and no option will be exercisable after 10 years from the date granted. The company accounts for these plans under APB Opinion No. 25, under which no compensation cost has been recognized. Had compensation cost for the 1992 Plan been determined based on the fair value at the grant date for awards in 1998, 1997 and 1996 consistent with the provisions of SFAS No. 123, the company's net income and earnings

per share would have been reduced to the following pro forma amounts:

(In Thousands, except per share data)	1998	1997	1996
Net Earnings - as reported	\$23,454	\$20,410	\$19,067
Net Earnings - pro forma	22,575	19,716	18,556
Basic Earnings per share - as reported	2.29	1.97	1.80
Basic Earnings per share - pro forma	2.20	1.90	1.75
Diluted Earnings per share - as reported	2.12	1.86	1.71
Diluted Earnings per share - pro forma	2.05	1.80	1.66

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 1998, 1997 and 1996: expected dividend yield of 2.5 percent in 1998, 2.7 percent in 1997 and 3.0 percent in 1996. Expected volatility of 27 percent in 1998 and 28 percent in 1997 and 1996; expected lives of 7.5 years; and risk-free interest rate of 5.75 percent in 1998, 6.24 percent in 1997 and 6.89 percent in 1996.

A summary of the status of the company's stock option plans at December 31, 1998, 1997 and 1996, and changes during the years then ended is presented as follows:

	1998 Shares	Weighted- Average Exercise Price	1997 Shares	1996 Shares
Options outstanding, beginning of year	1,168,252	\$16.06	1,266,252	1,044,810
Options exercised	(151,200)	16.36	(200,500)	(44,826)
Options canceled	(3,229)	30.97	(4,000)	(5,112)
Options granted	233,768	30.86	106,500	271,380
Options outstanding, end of year	1,247,591	18.76	1,168,252	1,266,252
Option price range at end of year	\$ 9.438- 30.969		\$ 9.438- 19.750	\$ 9.438- 19.750
Option price range for exercised shares	9.438- 19.750		9.438- 18.219	8.125- 18.219
Options available for grant at end of year	315,583		546,122	647,122
Weighted-average fair value of options, granted during the year	\$ 9.64		\$ 6.18	\$ 6.35

Summary of stock options outstanding at December 31, 1998, is as follows:

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding at 12/31/98	Weighted- Average Remaining Contractual Life	Weighted- Average Exercise Price	Number Exercisable at 12/31/98	Weighted- Average Exercise Price
\$9.438	89,800	1.33	\$ 9.44	89,800	\$ 9.44
\$12.563 - \$14.000	436,500	5.06	13.84	436,500	13.84
\$18.219 - \$30.969	721,291	7.23	22.90	385,752	19.13
	1,247,591	6.04	\$18.76	912,052	\$15.64

9. Pension Plans

The company has non-contributory defined benefit plans covering substantially all employees. The benefits under these plans are based primarily on years of service and compensation levels. The company funds the annual provision deductible for income tax purposes. The plans' assets consist principally of marketable equity securities and government and corporate debt securities. The plans' assets at December 31, 1998, 1997 and 1996, included \$11,183,000, \$12,443,000 and \$8,558,000, respectively, of the company's common stock.

Net 1998, 1997 and 1996 periodic pension cost for the plans consists of the following:

(Dollars in Thousands)	1998	1997	1996
Service cost	\$ 1,969	\$ 1,754	\$ 1,664
Interest cost on projected benefit obligation	3,262	3,029	2,700
Expected return on plan assets	(4,658)	(4,158)	(3,851)
Amortization of unrecognized net transition assets	(567)	(567)	(567)
Amortization of unrecognized prior service cost	269	268	168
Amortization of unrecognized net gain	(5)	(4)	(4)
Net pension expense	\$ 270	\$ 322	\$ 110

Changes in benefit obligations for the years ending December 31, 1998 and 1997 were as follows:

(Dollars in Thousands)	1998	1997
Benefit obligation at beginning of year	\$44,391	\$37,696
Service cost	1,969	1,754
Interest cost	3,262	3,029
Plan amendments	23	--
Actuarial loss	5,064	3,198
Benefits paid	(1,540)	(1,286)
Benefit obligation at end of year	\$53,169	\$44,391

Changes in the fair value of plan assets during fiscal years 1998 and 1997 were as follows:

(Dollars in Thousands)	1998	1997
Fair value of plan assets at beginning of year	\$64,786	\$52,304
Actual return on plan assets	3,350	13,130
Employer contributions	587	638
Benefits paid	(1,540)	(1,286)
Fair value of plan assets at end of the year	\$67,183	\$64,786

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

(Dollars in Thousands)	1998	1997
Plan assets in excess of projected benefit obligations	\$14,014	\$ 20,395
Unrecognized net transition assets	(1,134)	(1,701)
Unrecognized prior service cost	1,748	1,994
Unrecognized net gain	(7,386)	(13,763)
Prepaid benefit cost	\$ 7,242	\$ 6,925

The prepaid pension asset is included in the "Other Assets" caption on the Consolidated Balance Sheets. The weighted-average assumptions as of December 31, 1998, 1997 and 1996, were as follows:

	1998	1997	1996
Discount rate	6.75%	7.25%	7.75%

Expected return on plan assets	8.50%	8.50%	8.50%
Rate of compensation increase	4.25%-6.25%	4.50%-6.50%	5.00%-7.00%
=====			

The plans net transitional assets are being amortized over a period of 15 years.
The prior service costs are being amortized over an average of 12 years.

10. Accrued Liabilities

 Accrued liabilities consisted of:

(Dollars in Thousands)	December 31	
	1998	1997
Accrued payroll and benefits	\$14,236	\$13,824
Accrued customer discounts	6,760	6,307
Deferred revenue - current	4,451	4,328
Other accrued liabilities	11,713	9,383
Total accrued liabilities	\$37,160	\$33,842

11. Other Non-current Liabilities

 Other non-current liabilities were comprised of the following:

(Dollars in Thousands)	December 31	
	1998	1997
Deferred revenue	\$ 6,242	\$ 9,892
Environmental and legal matters (Note 12)	14,563	17,597
Total other non-current liabilities	\$20,805	\$27,489

During 1998 and 1997, the company received prepayments on certain multi-year commitments for future shipments of products. As the commitments are fulfilled, a proportionate share of the deferred revenue is recognized into income. Related deferred revenue at December 31, 1998 and 1997 is \$10,693,000 and \$14,219,000, respectively, of which the amount recognizable within one year is included in the "Accrued Liabilities" caption of the Consolidated Balance Sheets.

12. Contingencies

 There are a variety of legal proceedings pending or threatened against the company. Some of these proceedings may result in fines, penalties, judgments or costs being assessed against the company at some future time. The company's operations are subject to extensive local, state and federal regulations, including the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("Superfund") and the Superfund amendments of 1986. The company, and others, have been named as potentially responsible parties at affected geographic sites. As discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations, the company believes that it has made adequate provisions for the costs it may incur with respect to these sites.

After partial remediation payments at certain sites, the company has estimated a range of possible environmental and legal losses from \$4.1 million to \$26.4 million at December 31, 1998, compared to \$4.2 million to \$25.8 million at December 31, 1997. At December 31, 1998, the company's reserve was \$17.6 million for legal and environmental matters compared to \$20.6 million at December 31, 1997. The company made payments of \$3.6 million in 1998 and \$3.0 million in 1997 related to legal costs, settlements and costs related to remedial design studies at various sites.

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

13. Segment Reporting

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

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

Segment data for the three years ended December 31, 1998, 1997 and 1996, is as follows:

(Dollars in Thousands)	Surfactants	Polymers	Specialty Products	Segment Totals
1998	-----	-----	-----	-----

Net sales	\$478,289	\$112,625	\$19,537	\$610,451
Operating income	42,757	21,051	3,511	67,319
Assets	315,549	48,795	17,478	381,822
Capital expenditures	37,091	3,632	1,652	42,375
Depreciation and amortization expenses	29,265	5,847	1,249	36,361
1997				

Net sales	\$457,109	\$105,754	\$19,086	\$581,949
Operating income	43,989	16,296	2,959	63,244
Assets	278,559	57,295	18,020	353,874
Capital expenditures	23,873	6,494	3,850	34,217
Depreciation and amortization expenses	27,507	5,819	983	34,309
1996				

Net sales	\$414,892	\$103,444	\$18,299	\$536,635
Operating income	37,672	19,765	3,494	60,931
Assets	280,854	52,012	15,743	348,609
Capital expenditures	35,967	6,376	1,757	44,100
Depreciation and amortization expenses	24,781	5,624	738	31,143

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

(Dollars in Thousands)	1998 -----	1997 -----	1996 -----
Operating income - segment totals	\$ 67,319	\$ 63,244	\$ 60,931
Unallocated corporate expenses(a)	(21,896)	(18,874)	(20,545)
Interest expenses	(7,453)	(7,595)	(7,243)
Income/(Loss) from equity in joint ventures	796	(1,901)	(882)
	-----	-----	-----
Consolidated income before income taxes	\$ 38,766	\$ 34,874	\$ 32,261
	=====	=====	=====
Assets - segment totals	\$381,822	\$353,874	\$348,609
Unallocated corporate assets(b)	22,539	21,062	32,403
	-----	-----	-----
Consolidated assets	\$404,361	\$374,936	\$381,012
	=====	=====	=====
Capital expenditures - segment totals	\$ 42,375	\$ 34,217	\$ 44,100
Unallocated corporate expenditures	1,681	1,372	823
	-----	-----	-----
Consolidated capital expenditures	\$ 44,056	\$ 35,589	\$ 44,923
	=====	=====	=====
Depreciation and amortization expenses - segment totals	\$ 36,361	\$ 34,309	\$ 31,143
Unallocated corporate depreciation expenses	986	972	995
	-----	-----	-----
Consolidated depreciation and amortization expenses	\$ 37,347	\$ 35,281	\$ 32,138
	=====	=====	=====

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

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

Company-wide geographic data for the years ended December 31, 1998, 1997 and 1996, is as follows (net sales attributed to countries based on selling location):

(Dollars in Thousands)	1998 -----	1997 -----	1996 -----
Net sales			
United States	\$506,075	\$494,496	\$449,544
All foreign countries	104,376	87,453	87,091
	-----	-----	-----
Total	\$610,451	\$581,949	\$536,635
	=====	=====	=====
Long-lived assets			
United States	\$200,587	\$192,821	\$189,671
All foreign countries	14,509	13,780	17,488
	-----	-----	-----
Total	\$215,096	\$206,601	\$207,159
	=====	=====	=====

14. Earnings Per Share

Below is the computation of basic and diluted earnings per share for the years ended December 31, 1998, 1997 and 1996:

(In Thousands, except per share amounts)	1998	1997	1996

Computation of Basic Earnings per Share			
Net income	\$23,454	\$20,410	\$19,067
Deduct dividends on preferred stock	896	1,027	1,068
	-----	-----	-----
Income applicable to common stock	\$22,558	\$19,383	\$17,999
Weighted-average number of shares outstanding	9,843	9,831	10,002
Basic earnings per share	\$ 2.29	\$ 1.97	\$ 1.80
	=====	=====	=====
Computation of Diluted Earnings per Share			
Net income	\$23,454	\$20,410	\$19,067
Weighted-average number of shares outstanding	9,843	9,831	10,002
Add net shares from assumed exercise of options			

(under treasury stock method)	456	275	242
Add weighted-average shares from assumed conversion of convertible preferred stock	744	853	887

Shares applicable to diluted earnings	11,043	10,959	11,131
Diluted earnings per share	\$ 2.12	\$ 1.86	\$ 1.71
=====			

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

For the Year	1998	1997	1996	1995	1994
Net Sales	\$610,451	\$581,949	\$536,635	\$528,218	\$443,948
Operating Income	45,423	44,370	40,386	32,620	29,853
Percent of net sales	7.4%	7.6%	7.5%	6.2%	6.7%
Pre-tax Income	38,766	34,874	32,261	24,991	22,512
Percent of net sales	6.4%	6.0%	6.0%	4.7%	5.1%
Provision for Income Taxes	15,312	14,464	13,194	8,872	8,667
Net Income	23,454	20,410	19,067	16,119	13,845
Per share (Diluted)/(a) (b)/	2.12	1.86	1.71	1.46	1.26
Percent of net sales	3.8%	3.5%	3.6%	3.1%	3.1%
Percent to stockholders' equity/(c)/	17.0%	15.5%	15.6%	14.5%	13.3%
Cash Dividends Paid	6,432	6,069	5,846	5,540	5,294
Per common share/(a)/	.5625	.5125	.4775	.4475	.4250
Depreciation and Amortization	37,347	35,281	32,138	30,384	28,935
Capital Expenditures	44,056	35,589	44,923	39,247	42,884
Weighted-Average Common Shares Outstanding/(a)/	9,843	9,831	10,002	9,984	9,924
As of Year End					
Working Capital	\$ 61,814	\$ 63,789	\$ 70,322	\$ 66,856	\$ 48,915
Current Ratio	1.7	1.8	1.8	1.8	1.6
Property, Plant and Equipment, net	215,096	206,601	207,159	192,470	183,657
Total Assets	404,361	374,936	381,012	362,527	324,948
Long-term Debt, less current maturities	107,708	94,898	102,567	109,023	89,795
Stockholders' Equity	147,984	137,598	131,615	122,477	111,302
Per share/(a) (d)/	14.18	13.01	12.24	11.25	10.27
Number of Employees	1,372	1,292	1,270	1,267	1,265

- /(a)/ Adjusted for two-for-one common stock split in 1994.
/(b)/ Based on weighted-average number of common shares outstanding during the year.
/(c)/ Based on equity at beginning of year.
/(d)/ Based on common shares and the assumed conversion of the convertible preferred shares outstanding at year end.

Quarterly Stock Data (Unaudited)

Quarter	Stock Price Range				Dividends Paid Per Common Share	
	1998		1997		1998	1997
	High	Low	High	Low		
First	\$30 1/2	\$26 1/8	\$20 3/8	\$18 1/4	13.75c	12.50c
Second	32 1/4	29 5/8	24 5/8	18	13.75c	12.50c
Third	31 1/4	23 1/8	26 3/4	22 1/16	13.75c	12.50c
Fourth	29	24 5/8	32 3/8	26	15.00c	13.75c
Year	32 1/4	23 1/8	32 3/8	18	56.25c	51.25c

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

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

1997

Quarter	First	Second	Third	Fourth	Year
Net Sales	\$139,670	\$153,650	\$146,502	\$142,127	\$581,949
Gross Profit	24,045	27,284	28,305	24,537	104,171
Interest, net	(1,870)	(1,900)	(1,855)	(1,970)	(7,595)
Pre-tax Income	7,539	10,461	10,962	5,912	34,874
Net Income	4,477	6,323	6,143	3,467	20,410
Net Income per Share (Diluted)	.41	.58	.56	.32	1.86

STEPAN COMPANY
SUBSIDIARIES OF REGISTRANT

Subsidiary

Organized under the Laws of:

Stepan Europe S.A.
Stepan Canada, Inc.
Stepan Mexico, S.A. de C.V.
Stepan Deutschland GmbH
Stepan Colombiana de Quimicos
Stepan Quimica Ltda.

France
Canada
Mexico
Germany
Colombia
Brazil

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports dated February 11, 1999, included or incorporated by reference in Stepan Company's Annual Report in this Form 10-K for the year ended December 31, 1998, into the company's previously filed Registration Statements on Form S-8, File Nos. 2-64668, 2-40183, 2-80336 and 33-57189.

ARTHUR ANDERSEN LLP

Chicago, Illinois,
March 29, 1999

POWER OF ATTORNEY

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

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney on this 29 day of March 1999

/s/ F. Quinn Stepan

F. Quinn Stepan

/s/ F. Quinn Stepan, Jr.

F. Quinn Stepan, Jr.

/s/ Walter J. Klein

Walter J. Klein

/s/ James A. Hartlage

James A. Hartlage

/s/ Thomas F. Grojean

Thomas F. Grojean

/s/ Paul H. Stepan

Paul H. Stepan

/s/ Robert D. Cadieux

Robert D. Cadieux

/s/ Robert G. Potter

Robert G. Potter

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM
 CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 1998 AND CONSOLIDATED STATEMENT OF
 INCOME FOR THE TWELVE MONTHS THEN ENDED AND IS QUALIFIED IN ITS ENTIRETY BY
 REFERENCE TO SUCH FINANCIAL STATEMENTS.

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