SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

# FORM 10-Q

(MARK ONE)
(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 1995

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

1-4462
Commission File Number

STEPAN COMPANY
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 36 1823834 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |

Edens and Winnetka Road, Northfield, Illinois 60093
(Address of principal executive offices)

Registrant's telephone number (708) 446-7500

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

Yes X No ___

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

| Class | Outstanding at October 31, 1995 |
|---|---|
| Common Stock, $1 par value | 10,011,000 Shares |

Part I FINANCIAL INFORMATION
Item 1 - Financial Statements

STEPAN COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
September 30, 1995 and December 31, 1994
Unaudited

| (Dollars in Thousands) | 9/30/95 | 12/31/94 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 1,070 | $ 2,452 |
| Receivables, net | 78,103 | 70,385 |
| Inventories (Note 2) | 47,739 | 45,464 |
| Other current assets | 11,349 | 11,070 |
| Total current assets | 138,261 | 129,371 |
| PROPERTY, PLANT AND EQUIPMENT: | | |
| Cost | 441,017 | 417,654 |
| Less accumulated depreciation | 256,071 | 233,997 |
| | 184,946 | 183,657 |
| OTHER ASSETS | 16,095 | 11,920 |
| Total assets | $ 339,302 | $ 324,948 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Current maturities of long-term debt | $ 6,939 | $ 8,043 |
| Accounts payable | 36,339 | 37,904 |
| Accrued liabilities | 37,768 | 34,509 |
| Total current liabilities | 81,046 | 80,456 |
| DEFERRED INCOME TAXES | 32,653 | 32,976 |
| LONG-TERM DEBT, less current maturities (Note 3) | 97,237 | 89,795 |
| DEFERRED REVENUE (Note 6) | 8,644 | 10,419 |
| STOCKHOLDERS' EQUITY: | | |
| 5-1/2% convertible preferred stock, cumulative, voting without par value; authorized 2,000,000 shares; issued 797,172 shares in 1995 and 799,196 shares in 1994 | 19,929 | 19,980 |
| Common stock, $1 par value; authorized 15,000,000 shares; issued 10,084,653 shares in 1995 and 10,028,544 shares in 1994 | 10,085 | 10,029 |
| Additional paid-in capital | 4,553 | 3,983 |
| Cumulative translation adjustments | (2,894) | (3,491) |
| Retained earnings (approximately $40,274 unrestricted in 1995 and $36,336 in 1994) | 89,592 | 82,445 |
| | 121,265 | 112,946 |
| Less - Treasury stock, at cost (Note 5) | 1,543 | 1,644 |
| Stockholders' equity | 119,722 | 111,302 |
| Total liabilities and stockholders' equity | $ 339,302 | $ 324,948 |

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

# STEPAN COMPANY
## CONSOLIDATED STATEMENTS OF INCOME
For the Three and Nine Months Ended September 30, 1995 and 1994
Unaudited

| (In Thousands, except per share amounts) | Three Months Ended September 30 1995 | Three Months Ended September 30 1994 | Nine Months Ended September 30 1995 | Nine Months Ended September 30 1994 |
|---|---|---|---|---|
| NET SALES | $ 130,410 | $ 110,761 | $ 401,454 | $ 330,345 |
| COSTS AND EXPENSES: | | | | |
| Cost of Sales | 109,763 | 89,778 | 328,345 | 269,562 |
| General and Administrative | 10,157 | 4,082 | 21,880 | 12,320 |
| Marketing | 4,628 | 4,196 | 13,850 | 12,535 |
| Research, Development and Technical Services | 4,695 | 4,127 | 13,778 | 13,290 |
| Interest, net (Note 3) | 2,046 | 1,639 | 6,038 | 5,360 |
| | 131,289 | 103,822 | 383,891 | 313,067 |
| PRE-TAX INCOME (LOSS) | (879) | 6,939 | 17,563 | 17,278 |
| PROVISION FOR INCOME TAXES (BENEFIT) | (329) | 2,827 | 6,586 | 7,066 |
| NET INCOME (LOSS) | $ (550) | $ 4,112 | $ 10,977 | $ 10,212 |
| NET INCOME (LOSS) PER COMMON SHARE (Note 4) | | | | |
| Primary | $(0.08) | $0.39 | $1.02 | $0.95 |
| Fully Diluted | $ - | $0.37 | $1.00 | $0.93 |
| DIVIDENDS PER COMMON SHARE | $ 0.110 | $0.105 | $0.330 | $0.315 |
| AVERAGE COMMON SHARES OUTSTANDING | 9,998 | 9,938 | 9,976 | 9,918 |

All 1994 share and per share data have been retroactively adjusted for the stock split effective December 15, 1994.

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

STEPAN COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 1995 and 1994
Unaudited

| (Dollars In Thousands) | 9/30/95 | 9/30/94 |
|---|---|---|
| NET CASH FLOW FROM OPERATING ACTIVITIES | | |
| Net income | $10,977 | $10,212 |
| Depreciation and amortization | 22,923 | 22,114 |
| Deferred income taxes | (352) | 1,218 |
| Prepaid pension cost | (544) | (156) |
| Other non-cash items | (94) | 536 |
| Deferred revenue (Note 6) | (1,775) | 5,983 |
| Changes in Working Capital: | | |
| Receivables, net | (7,718) | (7,774) |
| Inventories | (2,275) | 6,310 |
| Accounts payable and accrued liabilities | 2,065 | (4,781) |
| Other | 218 | (60) |
| Net Cash Provided by Operating Activities | 23,425 | 33,602 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Expenditures for property, plant and equipment | (23,771) | (31,856) |
| Investment in joint venture | (3,750) | (1,000) |
| Other non-current assets | 110 | (578) |
| Net Cash Used for Investing Activities | (27,411) | (33,434) |
| CASH FLOWS FROM FINANCING AND OTHER RELATED ACTIVITIES | | |
| Revolving debt and notes payable to banks, net | (21,711) | 14,672 |
| Other debt borrowings | 40,000 | - |
| Other debt repayments | (12,048) | (11,268) |
| Sales (Purchases) of treasury stock, net | 101 | (164) |
| Dividends paid | (4,098) | (3,932) |
| Other non-cash items | 360 | 808 |
| Net Cash Provided by Financing and Other Related Activities | 2,604 | 116 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (1,382) | 284 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | $ 2,452 | $ 1,515 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | $ 1,070 | $ 1,799 |
| CASH PAID DURING THE PERIOD FOR: | | |
| Interest | $ 5,694 | $ 5,701 |
| Income taxes | $ 9,244 | $ 7,166 |

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

STEPAN COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 1995 and December 31, 1994
Unaudited

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements included herein have been prepared by the company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although management believes that the disclosures are adequate and make the information presented not misleading. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and the notes thereto included in the company's latest Annual Report to Stockholders and the Annual Report to the Securities and Exchange Commission on Form 10-K for the year ended December 31, 1994. In the opinion of management all adjustments necessary to present fairly the consolidated financial position of Stepan Company as of September 30, 1995, and the consolidated results of operations for the three and nine months then ended, and cash flows for the nine months then ended, have been included.

Because the inventory determination under the LIFO method can only be made at the end of each year based on the inventory levels and costs at that point, interim LIFO determinations must necessarily be based upon management's estimates of expected year-end inventory levels and costs. Since future estimates of inventory levels and prices are subject to many forces beyond the control of management, interim financial results are subject to final year-end LIFO inventory amounts.

2. INVENTORIES

Inventories include the following amounts:

| (Dollars in Thousands) | 9/30/95 | 12/31/94 |
|---|---|---|
| Inventories valued primarily on LIFO basis - | | |
| Finished products | $ 27,477 | $ 27,632 |
| Raw materials | 20,262 | 17,832 |
| Total inventories | $ 47,739 | $ 45,464 |

If the first-in, first-out (FIFO) inventory valuation method had been used for all inventories, inventory balances would have been approximately $14.1 million and $13.2 million higher than reported at September 30, 1995, and December 31, 1994, respectively.

3. DEBT

During June, 1995, the company entered into unsecured long-term loan agreements totaling $40 million with interest rates of 7.69 to 7.77 percent per annum and maturities of 10 to 15 years. The proceeds of the new loans were used to reduce unsecured bank debt. The terms and conditions of the new loan agreements are essentially the same as those of previously existing agreements.

Long-term debt includes unsecured bank debt of $1 million and $21.8 million at September 30, 1995, and December 31, 1994, respectively. The unsecured bank debt is available to the company under a line of credit based on rates that fluctuate daily. The average interest rate on unsecured bank debt for the three month period ended September 30 was 6.55 percent and 5.26 percent for 1995 and 1994, respectively. For the nine month period ended September 30, 1995 and 1994, the average interest rate was 6.70 percent and 4.89 percent, respectively.

4. NET INCOME PER COMMON SHARE

Primary net income per common share amounts are computed by dividing net income less the convertible preferred stock dividend requirement by the weighted average number of common shares outstanding. Fully diluted net income per share amounts are based on an 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 net income per share. For computation of earnings per share, reference should be made to Exhibit 11.

5. TREASURY STOCK

At September 30, 1995, treasury stock consists of 20,208 shares of preferred stock and 74,710 shares of common stock. At December 31, 1994, treasury stock consisted of 20,208 shares of preferred stock and 84,280 shares of common stock.

6. DEFERRED REVENUE

During 1994, the company received $12.8 million of prepayments on certain multi-year commitments for future shipments of products. As the commitments are fulfilled, a proportionate share of the deferred revenue is taken into income. Deferred revenues of $.6 million and $1.8 million were recognized as income during the three month and nine month periods ended September 30, 1995, respectively. Related deferred revenue at September 30, 1995, is $11.0 million of which $2.4 million is included in the "Accrued liabilities" caption of the Condensed Consolidated Balance Sheets.

7. 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 included in this filing, the company believes that it has made adequate provisions for the costs it may incur with respect to these sites. The company has estimated a range of possible environmental and legal losses from $5.0 million to $24.5 million at September 30, 1995. At September 30, 1995, the company's reserve was $9.4 million for legal and environmental matters compared to $6.9 million at December 31, 1994. While the company has insurance policies that may cover some of its environmental costs, it does not record those claims until such time as they become probable. The company has received some insurance recoveries in the past, primarily related to indemnification of legal costs. Currently, the company has not recorded any outstanding insurance claims.

At certain of the sites, estimates cannot be made of the total costs of compliance, or the company's share of such costs; accordingly, the company is unable to predict the effect thereof on future results of operations. In the event of one or more adverse determinations in any annual or interim period, the impact on results of operations for those periods could be material. However, based upon the company's present belief as to its relative involvement at these sites, other viable entities' responsibilities for cleanup and the extended period over which any costs would be incurred, the company believes that these matters will not have a material effect on the company's financial position. Certain of these matters are discussed in Item 3, Legal Proceedings, in the 1994 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.

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

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

### LIQUIDITY AND CAPITAL RESOURCES

For the first nine months ended September 30, 1995, net cash from operations has totaled $23.4 million, a decrease of $10.2 million compared to $33.6 million for the same period last year. Cash from operations in 1994 included $6.0 million in customer advances. For the first nine months of 1995, income tax payments have totaled $9.2 million compared to $7.2 million for the same period in 1994. Increased working capital requirements were responsible for substantially all of the remaining difference in operating cash flows from year to year.

Capital expenditures have totaled $23.8 million for the first nine months of 1995, down from $31.9 million for the same period last year. Expenditures for property, plant and equipment are projected to reach a range of $38 million to $40 million for the current year, compared to $42.9 million during 1994. Included in current year investing activities is a $3.8 million joint venture capital contribution.

Since December 31, 1994, total company debt has increased by $6.3 million to close the third quarter at $104.2 million. Since year-end, the ratio of long-term debt to long-term debt plus shareholders' equity has increased from 44.7 percent to 44.8 percent. We project that total company debt will increase modestly for the balance of 1995, due primarily to planned capital expenditures partially offset by seasonal decreases in working capital requirements.

During June, 1995, the company entered into unsecured long-term loan agreements totaling $40 million with maturities of 10 to 15 years. The proceeds of the new loans were used to reduce domestic bank debt, which totaled $1.0 million as of September 30, 1995. The terms and conditions of the new loan agreements are essentially the same as those of previously existing agreements.

The company maintains contractual relationships with its domestic banks which provide for $45 million of revolving credit which may be drawn upon as needed for general corporate purposes. The company also meets short-term liquidity requirements through uncommitted bank lines of credit and bankers' acceptances. 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.

The company anticipates that cash from operations and from committed credit facilities will be sufficient to meet anticipated capital expenditure programs, dividend requirements and other planned financial commitments in 1995 and for the foreseeable future.

## RESULTS OF OPERATIONS

### Three Months Ended September 30, 1995 and 1994

A $5.0 million additional pre-tax provision for future legal and environmental costs has resulted in a net loss of $550,000 for the third quarter of 1995, or $.08 per share, compared to a net income of $4.1 million, or $.39 per share recorded for the same quarter a year earlier. During the quarter, a draft of the Remedial Investigation Feasibility Study for the remediation of the company's Maywood, New Jersey plant and adjacent property was filed with the Environmental Protection Agency containing a wide range of alternatives and costs. While many of these costs may or may not be incurred, the additional charge to earnings is based on the company's estimate of costs that may be incurred considering all the information available. The potential benefit of insurance and other third party recoveries for these costs has not been recorded. See further discussion of this matter in the legal proceeding section of this filing.

Net sales grew 18 percent to $130.4 million, up from $110.8 million reported last year. Net sales by product group were:

| (Dollars in Thousands) | Three Months Ended September 30 | | |
|---|---|---|---|
| | 1995 | 1994 | % Change |
| Net Sales: | | | |
| Surfactants | $ 91,738 | $ 79,306 | +16 |
| Polymers | 29,931 | 21,742 | +38 |
| Specialty Products | 8,741 | 9,713 | -10 |
| Total | $130,410 | $110,761 | +18 |

Surfactants increase in net sales was due mainly to a 22 percent increase in sales volume. Domestic sales were up 15 percent on a 25 percent increase in volume. A large part of the domestic volume gain stemmed from shipments to large national customers of new highly concentrated products manufactured utilizing the recent neutralization capacity expansion. From the broad commercial customer base, higher selling prices resulting from raw material cost increases also contributed higher net sales, despite a four percent decline in volume. Leading the foreign surfactants operation, European sales were up due primarily to a 35 percent increase in volume, and a stronger french franc. Partially offsetting the result was the reported lower Mexican net sales on a 14 percent decline in volume and the effect of a weaker peso.

Surfactants gross profit increased six percent from $13.9 million to $14.7 million for the third quarter of 1995. Gross profit rose primarily on higher sales from the larger national customers. The broad commercial customer base reported a lower gross profit between years as a result of reduced volume. Despite the higher sales volume, European gross profit declined due to competitive price pressures in the European fabric softener market which limited our ability to pass along raw material cost increases. Canadian and Mexican gross profit declined from a year ago due mainly to lower sales volume.

Polymers net sales were up due primarily to higher selling prices despite a four percent drop in sales volume from the year ago quarter. Higher selling prices were driven by a series of significant raw material price increases for phthalic anhydride (PA) and polyurethane polyols. Reduced sales volume was due entirely to lower shipments of PA as a result of a planned maintenance shutdown in the current quarter. Sales of polyurethane systems grew 48 percent on a 37 percent volume gain.

Polymers gross profit for the quarter declined 16 percent to $3.8 million from $4.5 million recorded a year earlier. The major reason for the decline was the lower margins in polyurethane polyols attributable to increases in raw material costs that could not be completely passed on to customers. Furthermore, the unfavorable margin mix in the polyurethane systems sales has offset the gain in sales volume. Despite the maintenance shutdown resulting in lower sales volume, PA earnings were up due to increased margins.

Specialty products net sales were down because sales of some lower margin products were discontinued in the current year. As a result, gross profit for specialty products decreased by $.4 million to $2.2 million for the quarter.

Operating expenses for the third quarter increased 57 percent over the same quarter in 1994. Administrative expenses increased $6.1 million, representing a majority of the operating expense increase, as a result of the higher legal and environmental expenses discussed above. The prior year's quarter legal and environmental expenses included the favorable impact of insurance recoveries related to previously incurred legal and environmental costs. Furthermore, last year's quarter recorded a one-time favorable group health insurance reimbursement that did not recur in the current quarter. Marketing expenses rose ten percent primarily due to higher salaries as well as increased marketing effort in the Pacific Rim. Research and development expenses increased 14 percent due largely to increased depreciation and salary expenses.

Interest expense for the quarter increased 25 percent primarily as a result of lower capitalized interest on capital projects in the current quarter as compared to last year, coupled with higher short term borrowing rates.

Nine Months Ended September 30, 1995 and 1994

Net income for the nine months ended September 30, 1995, was $11.0 million, or $1.02 per share, up eight percent from $10.2 million, or $.95 per share recorded for the same period a year ago. Net sales grew 22 percent to $401.5 million, up from $330.3 million reported last year. Net sales by product group were:

| (Dollars in Thousands) | Nine Months Ended September 30 | | |
|---|---|---|---|
| | 1995 | 1994 | % Change |
| Net Sales: | | | |
| Surfactants | $286,016 | $246,174 | +16 |
| Polymers | 90,745 | 56,656 | +60 |
| Specialty Products | 24,693 | 27,515 | -10 |
| Total | $401,454 | $330,345 | +22 |

Surfactants sales increased due in large part to a 16 percent increase in sales volume. Domestic sales increased 16 percent on an 18 percent increase in volume. A majority of the domestic volume gain was from shipments of highly concentrated products to large national customers. Higher average selling prices resulting from raw material cost increases also contributed to higher net sales from the broad commercial customer base. The strong domestic sales volume was also supported by volume increases in Europe, Mexico, and Canada. Reported sales in Mexico were down despite higher volume due to the negative impact of the devalued peso.

Surfactants gross profit increased 15 percent from $46.2 million to $53.3 million for the first nine months of 1995. Gross profit rose sharply on higher domestic sales volume. Mexico's gross profit was up because of higher sales volume. Canadian and European gross profit was relatively unchanged from a year ago.

Polymers net sales were up due to higher selling prices reflecting the pass through of higher raw material costs. PA and polyurethane polyols experienced an 11 percent and 24 percent volume gain, respectively. Sales of polyurethane systems declined on lower sales volume.

Polymers gross profit for the first nine months of 1995 rose 62 percent to $15.2 million from $9.4 million in the prior year. Higher PA sales volume and margins generated all of the increase. Polyurethane polyols gross profit was down particularly in the third quarter due to the inability to pass on raw material cost increases. Polyurethane systems gross profit declined as a result of unfavorable product mix and lower sales volume.

Specialty products net sales were down on reduced volume. Sales of some lower margin products were discontinued in the current year. Gross profit reported a decline of $.5 million to $4.6 million from $5.1 million recorded a year ago.

Operating expenses for the first nine months increased 30 percent over the same period in 1994. Reflecting the additional $8.4 million legal and environmental charges, administrative expenses increased 78 percent between years. Prior year's expenses benefited from the favorable insurance recoveries related to previously incurred legal and environmental costs. In addition, a one-time group health insurance reimbursement was recorded in the prior year that did not recur this year. Marketing expenses rose 11 percent primarily due to higher salaries. Research and development expenses increased four percent.

Interest expense increased 13 percent primarily as a result of lower capitalized interest associated with the reduced capital spending, and higher short term borrowing rates.

## 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 the first nine months of 1995, company expenditures for capital projects related to the environment were $3.8 million and should approximate $7 million to $8 million for the full year 1995. These projects are capitalized and typically depreciated over 10 years. Capital spending on such projects is likely to be somewhat lower in future years as 1995 includes some larger projects. Recurring costs associated with the operation and maintenance of environmental protection facilities in ongoing operations were $5.1 million for the first nine months of 1995. While difficult to project, it is not anticipated that these recurring expenses will increase significantly in the future.

The company has been named by the government as a potentially responsible party at 17 waste disposal sites where cleanup costs have been or may be incurred under the federal Comprehensive Environmental Response, Compensation and Liability Act and similar state statutes. In addition, damages are being claimed against the company in general liability actions for alleged personal injury or property damage in the case of some disposal and plant sites. The company believes that it has made adequate provisions for the costs it may incur with respect to these sites. The company has estimated a range of possible environmental and legal losses from $5.0 million to $24.5 million at September 30, 1995. At September 30, 1995, the company's reserve was $9.4 million for legal and environmental matters compared to $6.9 million at December 31, 1994. During the first nine months of 1995, expenditures related to legal and environmental matters approximated $6.2 million. The company expects to receive reimbursement of environmental defense costs from insurers. However, currently the company has no receivable recorded for such claims. At certain of the sites, estimates cannot be made of the total costs of compliance or the company's share of such costs; accordingly, the company is unable to predict the effect thereof on future results of operations. In the event of one or more adverse determinations in any annual or interim period, the impact on results of operations for those periods could be material. However, based upon the company's present belief as to its relative involvement at these sites, other viable entities' responsibilities for cleanup and the extended period over which any costs would be incurred, the company believes that these matters will not have a material effect on the company's financial position. Certain of these matters are discussed in Item 3, Legal Proceedings, in the 1994 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.

ACCOUNTING STANDARD

In March, 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 121-Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of ("SFAS No. 121"). This standard must be adopted no later than the 1996 reporting year, but can be adopted early. SFAS No. 121 requires that operating assets and associated goodwill be written down to fair value whenever an impairment review indicates that the carrying value cannot be recovered on an undiscounted cash flow basis. After any such noncash write-down, results of operations would be favorably affected by reduced depreciation, depletion and amortization charges. The company has completed a preliminary review of SFAS No. 121, and currently does not believe it will have any impact on the results of operations upon adoption in 1996.

Part II OTHER INFORMATION

Item 1 - Legal Proceedings

Reference is made to the company's Report Form 10-K for the year ended 1991, 1992, and 1994 and Reports Form 10-Q for the quarters dated September 30, 1993 regarding the company's Maywood site. 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.

Reference is made to the company's Report Form 10-Q for the quarters ended September 30, 1993 and September 30, 1994 regarding the Ewan and D'Imperio cases, and particularly, U.S. V. Jerome Lightman case. 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.

Reference is made to the company's Report Form 10-Q for the period ended September 30, 1994 and March 31, 1995, where in the company had revealed settlement of its liability at the Buzby site, subject to court approval. On September 29, 1995, the United States District Court, District of New Jersey, denied the motion to approve settlement. Consequently, the company cannot, at this time, ascertain what, if any, liability it may incur with the regard to this site or whether the funds previously paid by the company for the settlement will be returned to it.

On September 27, 1995, the company received a 104(e) Request for Information from the United States Environmental Protection Agency (USEPA) for a site known as Bofors Nobel site in Muskegon, Michigan. 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.

Reference is made to the company's Report Form 10-K for the year ended 1992 relating to its 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.

Reference is made to the company's Report Form 10-Q for the period dated June 30, 1993, describing a case entitled Carl Patterman and Noreen Patterman v. Stepan Company. The company settled this case for a non-material court-sealed amount.

Item 6 - Exhibits and Reports on Form 8-K

(A) Exhibits

(11) Statement re computation of Per Share Earnings

(27) Financial Data Schedule

(B) Reports on Form 8-K

A report on Form 8-K was filed on October 24, 1995, regarding the company reported loss for the third quarter.

SIGNATURES

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

STEPAN COMPANY
/s/ Walter J. Klein

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

Date: November 14, 1995

Exhibit (11)

STEPAN COMPANY
STATEMENT RE COMPUTATION OF PER SHARE EARNINGS
For the Three and Nine Months Ended September 30, 1995 and 1994
Unaudited

| (In Thousands, except per share amounts) | Three Months Ended September 30 1995 | Three Months Ended September 30 1994 | Nine Months Ended September 30 1995 | Nine Months Ended September 30 1994 |
|---|---|---|---|---|
| Computation of per Share Earnings | | | | |
| Net income (loss) | $ (550) | $ 4,112 | $ 10,977 | $ 10,212 |
| Deduct dividends on preferred stock | 267 | 269 | 802 | 808 |
| Income applicable to common stock | $ (817) | $ 3,843 | $ 10,175 | $ 9,404 |
| Weighted average number of shares outstanding | 9,998 | 9,938 | 9,976 | 9,918 |
| Per share earnings* | $ (0.082) | $ 0.387 | $ 1.020 | $ 0.948 |
| Computation of Per Share Primary Earnings | | | | |
| Income applicable to common stock(A) | N/A | $ 3,843 | $ 10,175 | $ 9,404 |
| Weighted average number of shares outstanding | | 9,938 | 9,976 | 9,918 |
| Add net shares issuable from assumed exercise of options (under treasury stock method) | | 134 | 171 | 144 |
| Shares applicable to primary earnings | | 10,072 | 10,147 | 10,062 |
| Per share primary earnings* | | $ 0.382 | $ 1.003 | $ 0.935 |
| Dilutive effect | | 1.3% | 1.7% | 1.4% |
| Computation of Per Share Fully Diluted Earnings | | | | |
| Net income(A) | N/A | $ 4,112 | $ 10,977 | $ 10,212 |
| Weighted average number of shares outstanding | | 9,938 | 9,976 | 9,918 |
| Add net shares issuable from assumed exercise of options (under treasury stock method) | | 180 | 171 | 180 |
| Add weighted average shares issuable from assumed conversion of convertible preferred stock | | 890 | 888 | 896 |
| Shares applicable to fully diluted earnings | | 11,008 | 11,035 | 10,994 |
| Per share fully diluted earnings* | | $ 0.374 | $ 0.995 | $ 0.929 |
| Dilutive effect | | 3.4% | 2.5% | 2.0% |

(A) Due to the net loss for the three months ended September 30, 1995, any assumed conversion of common stock equivalents and convertible preferred stock would have been antidilutive. Accordingly, dilutive calculations of per share earnings were not applicable pursuant to APB No. 15.

* Rounded

This calculation is submitted in accordance with Regulation S-K, item 601(b)(11).

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM CONDENSED CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 1995 AND CONSOLIDATED STATEMENTS OF INCOME FOR THE NINE MONTHS THEN ENDED AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

9-MOS
DEC-31-1995
SEP-30-1995
1,070
0
78,103
0
47,739
138,261
441,017
256,071
339,302
81,046
97,237
10,085
0
19,929
89,708
339,302
401,454
401,454
328,345
377,853
0
0
6,038
17,563
6,586
10,977
0
0
0
10,977
1.02
1.00