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

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1996

OR

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

COMMISSION FILE NUMBER 1-4462

STEPAN COMPANY

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Delaware	36-1823834
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
Edens and Winnetka Road, Northfield, Illinois	60093
(Address of principal executive offices)	(Zip Code)

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

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

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

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

None
(Title of Class)

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

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

AGGREGATE MARKET VALUE AT FEBRUARY 28, 1997, OF VOTING STOCK HELD BY NONAFFILIATES OF THE REGISTRANT: $136,578,000.*

NUMBER OF SHARES OUTSTANDING OF EACH OF THE ISSUER'S CLASSES OF COMMON STOCK AS OF FEBRUARY 28, 1997:

CLASS	OUTSTANDING AT FEBRUARY 28, 1997
Common Stock, $1 par value	9,861,000 shares

DOCUMENTS INCORPORATED BY REFERENCE

PART OF FORM 10-K	DOCUMENT INCORPORATED
Part I, Item 1	1996 Annual Report to Stockholders
Part II, Items 5-8	1996 Annual Report to Stockholders
Part III, Items 10-12	Proxy Statement dated March 28, 1997

*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.

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PART I

ITEM 1. BUSINESS

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

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

In 1994, Stepan Company entered into a 50 percent joint venture with United Coconut Chemicals, Inc. and United Coconut Planters International in the Philippines. The venture, called Stepan Philippines, Inc., manufactures selected surfactants for sale in the Philippines and Asia/Pacific markets commencing in 1996.

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

MARKETING AND COMPETITION

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

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

MAJOR CUSTOMER AND BACKLOG

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

ENERGY SOURCES

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

RAW MATERIALS

The most important raw materials used by the company are of a petroleum or vegetable nature. For 1997, the company has commitments from suppliers to cover its forecasted requirements and is not substantially dependent upon any one supplier.

RESEARCH AND ENVIRONMENT

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 1996, 1995 and 1994 were $12,469,000, $12,425,000 and $12,281,000, respectively. During 1996 and 1995, the research and development staff consisted of 179 and 175 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 $6,015,000 during 1996. Such capital expenditures in 1997 should approximate $4.0 million. These expenditures represented approximately 13% of the company's capital expenditures in 1996 and are expected to be 11% of such expenditures in 1997. 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, 1996 and 1995, the company employed worldwide 1,270 and 1,267 persons, respectively.

FOREIGN OPERATIONS

See Note 13, Geographic Data, on page 31 of the company's 1996 Annual Report to Stockholders.

PRODUCT GROUPS

The manufacture of specialty and intermediate chemicals constitutes the company's only industry segment. The company's three groups of products and their contribution to sales for the three years ended December 31, 1996, were:

	SURFACTANTS	POLYMERS	SPECIALTY PRODUCTS
1996	75%	19%	6%
1995	72%	22%	6%
1994	74%	18%	8%

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 8 acre site. In addition, the company leases 49,000 square feet of office space in a nearby office complex.

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

Surfactants are produced at four plants in the United States and four wholly owned subsidiaries: one in France, Canada, Mexico and Germany. The principal plant is located on a 626 acre site at Millsdale (Joliet), Illinois. A second plant is located on a 39 acre tract in Fieldsboro, New Jersey. West Coast operations are conducted on an 8 acre site in Anaheim, California. A fourth plant is located on a 162 acre site in Winder, Georgia. The plant, laboratory and office of Stepan Europe are located on a 20 acre site near Grenoble, France. Stepan Canada, Inc. is located on a 70 acre leased, with an option to purchase, site in Longford Mills, Ontario, Canada. Stepan Mexico is located on a 13 acre site in Matamoros, Mexico. The newly acquired Stepan Germany is located on a five acre site in Cologne, Germany. The phthalic anhydride, polyurethane systems and polyurethane polyols plants are also located at Millsdale. Specialty products are mainly produced at a plant located on a 19 acre site in Maywood, New Jersey.

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

ITEM 3. LEGAL PROCEEDINGS

A reference is made to the Company's Report Form 10-Q for the quarter ended September 30, 1993 and the Company's Report Form 10-Q for the quarter ended September 30, 1996 and Report Form 10-K for the year ended December 31, 1995 relating to the Biddle Sawyer site located in Keyport New Jersey (Biddle Sawyer Corporation v. American Cyanamid Company, U.S. District Court of New Jersey CA-93-1063). On February 24, 1997, the Company entered into a settlement agreement with Biddle Sawyer for an undisclosed sum but which sum the Company does not believe is material. The settlement includes cross dismissals with prejudice by Biddle Sawyer against the Company and other defendants and the Company against Biddle Sawyer as well as other defendants.

Reference is made to the Company's Report Form 10-K for the year ended December 31, 1992 and Report Form 10-Q for the quarter ended September 30, 1995 and September 30, 1996 and Report form 10-K for the year ended December 31, 1995 and Report Form 10-Q for the quarter ended June 30, 1996 relating to the insurance recovery case brought by the company against various insurers to recover the cost for remediation at various sites (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.

Reference is made to the Company's Report Form 10-Q for the quarter ended September 30, 1993, September 30, 1994, September 30, 1995, September 30, 1996 and Report Form 10-K for the year ended December 31, 1995 regarding the D'Imperio site and particularly 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.

Reference is made to the Company's Report Form 10-K for the years ended December 31, 1991, 1992, 1994, and 1995 and Report Form 10-Q for the quarters ended September 30, 1993, September 30, 1995 and September 30, 1996 regarding the Company's 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.

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, 1996.

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 20, 1997, F. Quinn Stepan, Jr., was appointed Vice President and General Manager--Surfactants. He was previously Vice President--Global Laundry and Cleaning Products as of May, 1996 and Director--Business Management as of May, 1992. Charles W. Given, formerly Vice President and General Manager--Surfactants since April, 1992, was appointed Vice President--Corporate Development.

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

The Executive Officers of the company, their ages as of February 28, 1997, and certain other information are as follows:

NAME	AGE	TITLE	YEAR FIRST ELECTED OFFICER
F. Quinn Stepan......	59	Chairman, President and Chief Executive Officer	1967
James A. Hartlage....	59	Senior Vice President--Technology and Operations	1980
Charles W. Given.....	60	Vice President--Corporate Development	1992
Ronald L. Siemon.....	59	Vice President and General Manager--Polymers	1992
Jeffrey W. Bartlett..	53	Vice President, General Counsel, Regulatory Affairs and Corporate Secretary	1983
Walter J. Klein......	50	Vice President--Finance	1985
Mickey Mirghanbari...	59	Vice President--Manufacturing and Engineering	1992
Earl H. Wagener......	56	Vice President--Research and Development	1995
F. Quinn Stepan, Jr..	36	Vice President and General Manager--Surfactants	1997

PART II

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

(a) The company's common stock is listed and traded on both the New York Stock Exchange and the Chicago Stock Exchange. See page 33 of the company's 1996 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 28 of the company's 1996 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, 1997, there were 1,658 holders of common stock of the company.

(c) See page 33 of the company's 1996 Annual Report to Stockholders for dividend information which is incorporated by reference herein. Also see Note 4 on page 26 of the company's 1996 Annual Report to Stockholders which sets forth the restrictive covenants covering dividends.

ITEM 6. SELECTED FINANCIAL DATA

See page 32 of the company's 1996 Annual Report to Stockholders for a five year summary of selected financial information which is incorporated by reference herein.

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

See pages 14 through 18 of the company's 1996 Annual Report to Stockholders which is incorporated by reference herein.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See pages 19 through 31 of the company's 1996 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 33 of the company's 1996 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

See pages 3 through 5 of the company's Proxy Statement dated March 28, 1997, for the Annual Meeting of Stockholders which are incorporated by reference herein.

(b) Executive Officers

See Executive Officers of the Registrant in Part I above.

ITEM 11. EXECUTIVE COMPENSATION

See pages 6 and 7 of the company's Proxy Statement dated March 28, 1997, 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 28, 1997, for the Annual Meeting of Stockholders which are incorporated by reference herein.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None

PART IV

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

(a) & (d) Financial Statements and Schedules

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

(b) Reports on Form 8-K

A report on Form 8-K was filed on June 6, 1996, regarding settlement of a lawsuit.

(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 25, 1997

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 F. Quinn Stepan	Chairman, President, Chief Executive Officer and Director	March 25, 1997
Thomas F. Grojean Thomas F. Grojean	Director	March 25, 1997
James A. Hartlage James A. Hartlage	Senior Vice President--Technology and Operations and Director	March 25, 1997
Walter J. Klein Walter J. Klein	Vice President--Finance, Principal Financial and Accounting Officer	March 25, 1997
Paul H. Stepan Paul H. Stepan	Director	March 25, 1997
Robert D. Cadieux Robert D. Cadieux	Director	March 25, 1997
Robert G. Potter Robert G. Potter	Director	March 25, 1997

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 25, 1997

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, 1996, has been filed as an exhibit to this Annual Report on Form 10-K. Pages 19 through 31 of such Annual Report to Stockholders contain the Consolidated Balance Sheets as of December 31, 1996 and 1995, the Consolidated Statements of Income, Stockholders' Equity and Cash Flows and Notes to Consolidated Financial Statements for the three years ended December 31, 1996, 1995 and 1994, 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 8 and 9 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, 1996
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:

	1996	1995	1994
	(IN THOUSANDS)		
Balance, Beginning of Year	$1,744	$1,585	$1,739
Provision charged to income	442	349	291
Accounts written off, net of recoveries	(112)	(190)	(445)
Balance, End of Year	$2,074	$1,744	$1,585

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, 1997. 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, 1997

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
(3)a	Copy of the Certificate of Incorporation, and the Certificates of Amendment of Certificate of Incorporation dated May 6, 1968, April 20, 1972, April 16, 1973, December 2, 1983. Filed with the Company's Annual Report on Form 10-K for the year ended December 31, 1983, and incorporated herein by reference.
(3)b	Copy of the Bylaws of the company as amended through May 6, 1987. (Note 1)
(3)c	Copy of Certificate of Amendment, dated April 28, 1993, to Article IV of Certificate of Incorporation. (Note 7)
(3)d	Copy of Certificate of Amendment, dated May 5, 1987, to Article X of Certificate of Incorporation. (Note 1)
(4)h	Copy of Loan Agreement dated June 15, 1995, with Aid Association for Lutherans, the Northwestern Mutual Life Insurance Company and The Mutual Life Insurance Company of New York. (Note 10)
(4)i	Copy of Revolving Credit and Term Loan Agreement dated February 20, 1990, with The First National Bank of Chicago and the amendment dated March 21, 1990. (Note 3)
(4)m	Copy of Second Amendment dated September 20, 1991, amending Revolving Credit and Term Loan Agreement dated February 20, 1990 (see (4)i above). (Note 4)
(4)m(1)	Copy of Third Amendment dated December 29, 1992, amending Revolving Credit and Term Loan Agreement dated February 20, 1990 (see (4)i and (4)m above). (Note 8)
(4)m(2)	Copy of Fourth Amendment dated May 31, 1994, amending Revolving Credit and Term Loan Agreement dated February 20, 1990 (see (4)i, (4)m and (4)m(1) above). (Note 9)
(4)n(1)	Copy of Certificate of Designation, Preferences and Rights of the 5 1/2% Convertible Preferred Stock, without Par Value and the Amended Certificate dated August 12, 1992 and April 28, 1993. (Note 7)
(4)n(2)	Copy of Issuer Tender Offer Statement on Schedule 13E-4 dated August 13, 1992. (Note 6)
(4)n(3)	Copy of Amendment No. 1 to Schedule 13E-4 (see also (4)n(2) above) dated September 23, 1992. (Note 6)
(4)n(4)	Copy of the company's Form 8-A dated August 13, 1992. (Note 6) In accordance with 601(b)(4)(iii) of Regulation S-K, certain debt instruments are omitted, where the amount of securities authorized under such instruments does not exceed 10% of the total consolidated assets of the Registrant. Copies of such instruments will be furnished to the Commission upon request.
(10)a	Description of the 1965 Directors Deferred Compensation Plan. (Note 2)
(10)b	Copy of the 1969 Management Incentive Compensation Plan as amended and restated as of January 1, 1992. (Note 5)
(10)d	Copy of the 1982 Stock Option Plan. (Note 2)
(10)e	Copy of Leveraged Employee Stock Ownership Plan. (Note 3)
(10)f	Copy of the company's 1992 Stock Option Plan. (Note 5)
(11)	Statement re computation of per share earnings.
(13)	Copy of the company's 1996 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, 1996.
(23)	Consent of Independent Public Accountants.
(24)	Power of Attorney.
(27)	Financial Data Schedule.

NOTES TO EXHIBIT INDEX

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

EXHIBIT (11)

STEPAN COMPANY

STATEMENT RE COMPUTATION OF PER SHARE EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 1996 AND 1995
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	1996	1995
COMPUTATION OF PER SHARE EARNINGS		
Net Income	$19,067	$16,119
Deduct dividends on preferred stock	1,068	1,069
Income applicable to common stock	$17,999	$15,050
Weighted average number of shares outstanding	10,002	9,984
Per share earnings*	$ 1.800	$ 1.507
COMPUTATION OF PER SHARE PRIMARY EARNINGS		
Income applicable to common stock	$17,999	$15,050
Weighted average number of shares outstanding	10,002	9,984
Add net shares issuable from assumed exercise of options (under treasury stock method)	242	166
Shares applicable to primary earnings	10,244	10,150
Per share primary earnings*	$ 1.757	$ 1.483
Dilutive effect	2.4%	1.6%
COMPUTATION OF PER SHARE FULLY DILUTED EARNINGS		
Net income	$19,067	$16,119
Weighted average number of shares outstanding	10,002	9,984
Add net shares issuable from assumed exercise of options (under treasury stock method)	265	166
Add weighted average shares issuable from assumed conversion of convertible preferred stock	887	888
Shares applicable to fully diluted earnings	11,154	11,038
Per share fully diluted earnings*	$ 1.709	$ 1.460
Dilutive effect	5.1%	3.1%

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* Rounded

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

Results of Operations
1996 Compared with 1995

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

(Dollars in Thousands)	1996	1995	Percent Change
Surfactants	$ 402,268	$ 380,179	+ 6
Polymers	103,444	115,833	- 11
Specialty Products	30,923	32,206	- 4
Total	$ 536,535	$ 528,218	+ 2

Surfactants are a principal ingredient in consumer and industrial cleaning products such as detergents, shampoos, lotions, toothpastes and cosmetics. Other applications include lubricating ingredients and emulsifiers for spreading of insecticides and herbicides. Surfactants net sales, representing 75 percent of the company business, were the source of sales growth in 1996. The sales increase was due mainly to a 10 percent increase in sales volume. The volume gain stemmed largely from a growing domestic demand for high active products. The domestic market accounted for 84 percent of the total surfactant volume. Foreign operations also contributed to the sales growth, particularly with $6.5 million of first-time sales reported by the newly acquired German subsidiary (See Note 2 of Notes to the Consolidated Financial Statements). Canada, France and Mexico all reported higher sales on modest volume gains.

The polymer product group includes phthalic anhydride, polyurethane systems and polyurethane polyols. Phthalic anhydride is used in polyester resins, alkyd resins and plasticizers for applications in construction materials and components of automotive, boating and other consumer products. Polyurethane systems provide thermal insulation and are sold to the construction, industrial and appliance markets. Polyurethane polyols are used in the manufacture of laminate board for the construction industry. Despite a seven percent increase in sales volume, polymers net sales, accounting for 19 percent of the company business, decreased sharply due to a 35 percent drop in sales of phthalic anhydride (PA). Lower selling prices driven by a steep decline in raw material costs led to the decrease in PA sales. A five percent decrease in sales volume also contributed. PA business represented 48 percent of polymer volume in 1996. Partially offsetting the PA results were higher polyurethane polyols and polyurethane systems sales on stronger sales volume. Polyurethane polyols, representing 46 percent of polymer volume, recorded a 13 percent volume gain primarily on the strength of the laminate board industry.

Specialty products include flavors, lubricant additives, oil field chemicals and emulsifiers and solubilizers used in the food and pharmaceutical industry. Specialty products revenue declined moderately on a much reduced sales volume. Prior year sales included some lower margin products which have since been discontinued. This contributed to an improved average selling price between years.

Gross profit in 1996 was $96.2 million, or 17.9 percent of net sales, a one percent drop from $97.2 million, or 18.4 percent of net sales in 1995. Surfactant business was the main contributor to the decline. Despite the sales and volume growth, surfactants gross profit decreased 10 percent from $72.2 million to $65.0 million in 1996. Both domestic and foreign operations posted lower gross profit. Domestic gross profit decreased primarily as a result of competitive pressure on pricing and higher maintenance expenses. Maintenance expenses are projected to be lower in 1997 and the company feels that the domestic profit margins should improve. Mexican gross profit was down 32 percent principally as a result of a larger volume of lower margin products. Canadian gross profit was also down as a result of lower profit margins. France posted higher gross profit on higher sales volume, while Germany, the newly acquired subsidiary, reported start-up losses. In 1997, the company plans an expansion of the German product line to improve operating results. For 1996, the impact of the German operation was $1.6 million after tax loss which reduced earnings by approximately $.16 per share. Offsetting the surfactants results, polymers gross profit increased 29 percent to a record $24.9 million in 1996 from $19.3 million reported in the prior year. Higher margins and sales volumes for polyurethane polyols and systems, partially offset by lower margins and volumes for PA, accounted for the improvement. Specialty products gross profit improved by $.6 million to $6.3 million as a result of the improved product mix between years.

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

Operating income was $40.4 million in 1996, a 24 percent increase over 1995. Operating expenses, consisting of marketing, administrative and research expenses, fell 14 percent from a year ago. Administrative expenses decreased 40 percent as a result of lower legal and environmental costs which in the prior year included significant charges for potential future remediation costs for the company's Maywood, New Jersey, plant and adjacent property. See Note 12 of the Notes to the Consolidated Financial Statements. Current year's expense also benefited from $4.2 million of insurance recoveries. Marketing expenses rose five percent primarily due to higher payroll related expenses as well as increased advertising and promotional expenses. Research and development expenses increased seven percent due primarily to higher payroll expenses. Excluding 1996 insurance recoveries, operating expenses are expected to increase modestly in 1997.

Pretax income benefited from an eight percent decrease in interest expense. An increased amount of interest capitalized for long term construction projects accounted for most of the decline. Start-up losses reported by the Philippine joint venture negatively affected pre-tax earnings. The company expects improvement and profitability from the joint venture in 1997.

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

Net income for 1996 rose to a record of $19.1 million, or $1.80 per share, up 19 percent from $16.1 million, or $1.51 per share reported for 1995. The company believes improvement in surfactant earnings should lead the way to another record year in 1997.

1995 Compared with 1994

Sales for 1995 grew 19 percent to a record $528.2 million. The increase was the result of a 12 percent increase in sales volume. Sales by product group were:

(Dollars in Thousands)	1995	1994	Percent Change
Surfactants	$ 380,179	$ 329,186	+ 15
Polymers	115,833	78,778	+ 47
Specialty Products	32,206	35,984	- 10
Total	$ 528,218	$ 443,948	+ 19

Domestic surfactant volume, which contributed 85 percent of total surfactant sales volume, grew 17 percent over 1994. Higher average selling prices resulting from raw material cost increases also contributed to higher sales. Foreign subsidiaries' sales, representing 15 percent of surfactant sales volume, rose by four percent. European sales were up 29 percent due primarily to a 15 percent gain in volume coupled with a stronger French franc. Partially offsetting the European result was the reported lower Mexican sales on the significantly devalued Mexican peso that has lost 22 percent against the U.S. dollar since the beginning of 1995. However, Mexican sales volume declined only two percent. Canadian sales reported an eight percent increase reflecting mainly higher selling prices to pass through raw material cost increases.

Polymer sales increased due to higher selling prices reflecting a pass through of higher raw material costs and a 12 percent increase in volume. Phthalic anhydride, which represented 54 percent of polymer volume, experienced a 64 percent increase in sales due primarily to a 53 percent increase in average selling prices and a seven percent volume gain. The sharp rise in selling prices was driven by higher raw material costs and stronger market demand. Polyurethane polyols, which represented 41 percent of total polymer volume, experienced a 23 percent increase in volume due to strong domestic demand and significant gains in the export business. Polyurethane systems sales held steady as efforts continue to commercialize new generation products with more favorable environmental characteristics.

Specialty products revenues declined 10 percent on reduced volume. Sales of certain lower margin lubricant additives were discontinued in the current year. This has led to an improved average selling price between years.

Gross profit in 1995 was $97.2 million, or 18.4 percent of net sales, a 20 percent growth from $81.3 million, or 18.3 percent of net sales in 1994. Surfactants gross profit was $72.2 million for 1995, an increase of 17 percent from 1994. Domestic surfactants were up $10.7 million, or 24 percent, as a result of the higher domestic sales volume. Gross profit of foreign operations was flat as Europe's modest gain being entirely offset by slight declines reported by Canada and Mexico. Continued competitive pricing pressure which affected the foreign subsidiaries' ability to fully pass through raw material cost increases was the main cause of the lackluster foreign results. Polymers gross profit jumped $6.3 million to $19.3 million in 1995 representing a 48 percent increase from 1994. Phthalic anhydride accounted for all of the increased polymer gross profit showing significantly increased gross profit margins as a result of the higher selling prices mentioned earlier. Polyurethane polyols gross profit decreased 30 percent despite higher volume due to the inability to fully pass on raw material cost increases. Polyurethane systems gross profit declined 40 percent as a result of the unfavorable product mix and reduced volumes. Specialty products gross profit dropped $1.0 million to $5.6 million in 1995, a 16 percent decrease from 1994. The decline was due mainly to the cessation of certain low margin lubricant additives products.

Average raw material costs increased 11 percent during 1995, reflecting primarily higher polymer raw material costs. Manufacturing labor costs increased at a modest rate reflecting the recent low levels of inflation. The company employed 1,267 people which was relatively unchanged from 1994, but down 35 people from 1993 due to the voluntary early retirement program offered in 1994. Depreciation expense increased to $28.8 million in 1995 from $27.0 million in 1994 as a result of bringing into service significant capacity expansion projects in recent years, as well as continuing capital spending for plant improvements.

Operating income was $32.6 million in 1995, a nine percent increase from 1994. Operating expenses, consisting of marketing, administrative and research expenses, rose 25 percent reflecting higher administrative expenses in 1995. Administrative expenses climbed 61 percent due to a $9.4 million increase in legal and environmental expenses which was precipitated by a draft Remedial Investigation Feasibility Study enumerating possible future costs for remediation of the company's Maywood, New Jersey plant and adjacent property. See Note 12 of the Notes to the Consolidated Financial Statements. The 1994 expenses benefited from $3.1 million of insurance recoveries related to previously incurred legal and environmental costs. Marketing expenses rose 10 percent primarily due to higher salaries as well as increased marketing effort in the Pacific Rim. Research and development expenses increased six percent due largely to increased salary expenses.

The effective tax rate was 35.5 percent in 1995 compared to 38.5 percent in 1994 resulting in a modest two percent increase in the income tax provision. The decrease in the effective tax rate was attributable to the higher research and development tax credit benefits at the state level as well as tax credit carryforward benefits realized in Mexico. See Note 6 of the Notes to the Consolidated Financial Statements for a reconciliation of the statutory to the effective tax rate.

Net income for 1995 rose to a record $16.1 million, or $1.51 per share, compared to $13.8 million, or $1.29 per share in 1994.

Fourth Quarter 1996 Compared with 1995

For the quarter ended December 31, 1996, the company reported net income of $4.1 million, or $.38 per share, compared to $5.1 million, or $.49 per share in the fourth quarter of 1995. Net sales for the quarter increased three percent to $130.1 million from $126.8 million recorded in 1995. Gross profit was $23.1 million, down five percent in the fourth quarter compared to the same quarter of 1995. Surfactants earnings were down due to weakening profit margins and start-up losses of the German acquisition. Polymers reported higher quarterly gross profit due to increased sales volume and improved margins. Specialty products gross profit was essentially unchanged. Operating expenses declined four percent in the fourth quarter compared to the same quarter of 1995, due largely to lower legal and environmental expenses partially offset by higher research and development and marketing expenses.

Liquidity and Financial Condition

For the year ended December 31, 1996, net cash from operations totaled $65.8 million, an increase of $30.8 million over 1995. The current year increase was a product of higher earnings, customer prepayments and insurance recoveries as well as reduced working capital requirements compared to the prior year.

For the current year, net income and customer prepayments were up by $2.9 million and $7.4 million, respectively. Inventories decreased by $4.1 million during 1996 compared to an $8.9 million increase in 1995. The current year accounts receivable increase of $5.2 million compared to the 1995 increase of $9.4 million.

Capital expenditures totaled $44.9 million for 1996, up as planned from the $39.2 million recorded in 1995. Looking ahead, capital spending for 1997 is expected to approximate that of 1996.

Since December 31, 1995, total company debt has decreased by $6.4 million to finish the year at $109.5 million. Since December 31, 1995, the ratio of long-term debt to long-term debt plus shareholders' equity (long-term debt ratio) has decreased from 47.1 percent to 43.8 percent.

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. At December 31, 1996, the company had $12.2 million outstanding under this revolving credit line. 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 and acquisitions.

The company anticipates that cash from operations and from committed credit facilities will be sufficient to fund anticipated capital expenditures, dividends, acquisition and joint venture investments and other planned financial commitments for the foreseeable future.

Environmental and Legal Matters

The company is subject to extensive federal, state and local environmental laws and regulations. Although the company's environmental policies and practices are designed to ensure compliance with these laws and regulations, future developments and increasingly stringent environmental regulation could require the company to make additional unforeseen environmental expenditures. The company will continue to invest in the equipment and facilities necessary to comply with existing and future regulations. During 1996, the company expenditures for capital projects related to the environment were $6.0 million and should approximate $4.0 million for 1997. These projects are capitalized and typically depreciated over ten years. Capital spending on such projects is likely to continue at these levels in future years. Recurring costs associated with the operation and maintenance of facilities for waste treatment and disposal and managing environmental compliance in ongoing operations at our manufacturing locations were approximately $7.8 million for 1996 compared to $7.0 million for 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 14 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 $26.5 million at December 31, 1996, compared to $4.3 million to $23.6 million at December 31, 1995. At December 31, 1996, the company's reserve was $21.0 million for legal and environmental matters compared to $8.7 million at December 31, 1995. In 1996, the company recorded $24.0 million of insurance recoveries which represented a combination of settlements of litigation for all known environmental sites and a policy buyback from the company's primary insurers. $4.2 million of the settlements was credited to income for legal costs related to these recoveries. As a result, the company increased its reserve for legal and environmental matters to a more conservative position. During 1996, expenditures related to legal and environmental matters approximated $8.2 million compared to $7.8 million expended in 1995. While it is difficult to forecast the timing of the expenditures, the company believes that $4.5 million of the $21.0 million reserve is likely to be paid out in 1997. The balance of the reserve would probably be paid out over many years. See also Note 12 of the Notes to Consolidated Financial Statements.

At certain of the sites, estimates cannot be made of the total costs of compliance or the company's share of such costs; accordingly, the company is unable to predict the effect thereof on future results of operations. In the event of one or more adverse determinations in any annual or interim period, the impact on results of operations for those periods could be material. However, based upon the company's present belief as to its relative involvement at these sites, other viable entities' responsibilities for cleanup and the extended period over which any costs would be incurred, the company believes that these matters will not have a material effect on the company's financial position. Certain of these matters are discussed in Item 3, Legal Proceedings in the 1996 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.

In addition, reference should be made to the Five Year Summary on page 32.

Management Report on Financial Statements

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

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

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

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

/s/ Walter J. KLein
Walter J. Klein

Vice President--Finance

February 11, 1997

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, 1996 and 1995, and the related consolidated statements of income, cash flows and stockholders' equity, for each of the three years in the period ended December 31, 1996. 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, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

/s/ Arthur Andersen LLP

Chicago, Illinois,

February 11, 1997

Consolidated Balance Sheets
December 31, 1996 and 1995

(Dollars in Thousands)	1996	1995
Assets		
Current Assets:		
Cash and cash equivalents	$ 4,778	$ 3,148
Receivables, less allowances of $2,074 in 1996 and $1,744 in 1995	85,017	79,814
Inventories (Note 3)	50,242	54,363
Deferred income taxes (Note 6)	10,703	9,444
Other current assets	2,958	3,385
Total current assets	153,698	150,154
Property, Plant and Equipment:		
Land	6,416	4,611
Buildings and improvements	55,795	53,701
Machinery and equipment	427,141	379,363
Construction in progress	8,530	16,429
	497,882	454,104
Less accumulated depreciation	290,723	261,634
Property, plant and equipment, net	207,159	192,470
Other Assets	20,155	19,903
Total assets	$ 381,012	$ 362,527
Liabilities and Stockholders' Equity		
Current Liabilities:		
Current maturities of long-term debt (Note 4)	$ 6,973	$ 6,946
Accounts payable	43,417	42,530
Accrued liabilities (Note 10)	32,986	33,822
Total current liabilities	83,376	83,298
Deferred Income Taxes (Note 6)	35,954	36,469
Long-term Debt, less current maturities (Note 4)	102,567	109,023
Other Non-current Liabilities (Note 11)	27,500	11,260
Stockholders' Equity (Note 7):		
5 1/2 percent convertible preferred stock, cumulative, voting, without par value; authorized 2,000,000 shares; issued 796,972 shares in 1996 and 797,172 shares in 1995	19,924	19,929
Common stock, $1 par value; authorized 15,000,000 shares; issued 10,131,706 shares in 1996 and 10,086,653 shares in 1995	10,132	10,087
Additional paid-in capital	5,066	4,568
Cumulative translation adjustments	(4,820)	(3,691)
Retained earnings	106,513	93,292
	136,815	124,185
Less: Treasury stock, at cost	5,200	1,708
Stockholders' equity	131,615	122,477
Total liabilities and stockholders' equity	$ 381,012	$ 362,527

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, 1996, 1995 and 1994

(Dollars in Thousands, except per share amounts)	1996	1995	1994
Net Sales	$ 536,635	$ 528,218	$ 443,948
Cost of Sales	440,420	431,051	362,643
Gross Profit	96,215	97,167	81,305
Operating Expenses:			
Marketing	19,577	18,673	16,972
Administrative	16,549	27,412	17,082
Research, development and technical services (Note 1)	19,703	18,462	17,398
	55,829	64,547	51,452
Operating Income	40,386	32,620	29,853
Other Income (Expenses):			
Interest, net (Note 4)	(7,243)	(7,865)	(7,136)
Income (loss) from equity joint ventures (Note 1)	(882)	236	(205)
	(8,125)	(7,629)	(7,341)
Income Before Provision for Income Taxes	32,261	24,991	22,512
Provision for Income Taxes (Note 6)	13,194	8,872	8,667
Net Income	$ 19,067	$ 16,119	$ 13,845
Net Income Per Common Share:			
Primary	$ 1.80	$ 1.51	$ 1.29
Fully Diluted	$ 1.71	$ 1.46	$ 1.26
Average Common Shares Outstanding (Note 1)	10,002	9,984	9,924

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

1996 Sales Dollar Distribution
(Dollars in Thousands)

[PIE CHART APPEARS HERE]

Material $318,125 59.3%	Depreciation and Amortization $32,138 6.0%
Other Expenses $74,358 13.8%	Income Taxes $13,194 2.5%
Payroll and Fringes $79,753 14.8%	Net Income $19,067 3.6%

Combined Sales
(Thousands of Dollars)

[BAR GRAPH APPEARS HERE]

	1992	1993	1994	1995	1996
Surfactants	317,522	324,809	329,186	380,179	402,268
Polymers	87,060	79,071	78,778	115,833	103,444
Specialty Products	31,182	34,945	35,984	32,206	30,923
Consolidated Total	435,764	438,825	443,948	528,218	536,635

. Surfactants
. Polymers
. Specialty Products
(Consolidated Totals in bold)

Capital Expenditures
(Thousands of Dollars)

[CHART APPEARS HERE]

91	33,728
92	34,440
93	25,435
94	42,884
95	39,247
96	44,923

Compound Annual Growth
Five Years + 6%

Equity Per Share
(Dollars)

[CHART APPEARS HERE]

91	8.35
92	9.22
93	9.65
94	10.27
95	11.25
96	12.24

Compound Annual Growth
Five Years + 8%

Consolidated Statements of Cash Flows
For the years ended December 31, 1996, 1995 and 1994

(Dollars in Thousands)	1996	1995	1994
Net Cash Flows from Operating Activities			
Net income	$ 19,067	$ 16,119	$ 13,845
Depreciation and amortization	32,138	30,384	28,935
Deferred revenue recognition	(2,896)	(2,760)	--
Customer prepayments	7,375	--	12,883
Deferred income taxes	(1,710)	2,359	410
Non-current environmental and legal liabilities	12,925	3,601	--
Other non-cash items	548	(605)	627
Changes in Working Capital:			
Receivables, net	(5,203)	(9,429)	(13,135)
Inventories	4,121	(8,899)	3,454
Accounts payable and accrued liabilities	(1,113)	4,310	4,106
Other	535	(74)	(96)
Net Cash Provided by Operating Activities	65,787	35,006	51,029
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(44,923)	(39,247)	(42,884)
Investment in subsidiaries or joint ventures	(3,859)	(7,500)	(2,314)
Other non-current assets	268	(14)	(711)
Net Cash Used for Investing Activities	(48,514)	(46,761)	(45,909)
Cash Flows from Financing and Other Related Activities			
Revolving debt and notes payable to banks, net	(800)	(9,711)	13,313
Other debt borrowings	3,734	40,000	--
Other debt repayments	(9,190)	(12,053)	(11,455)
Purchases of treasury stock, net	(3,492)	(64)	(327)
Dividends paid	(5,846)	(5,540)	(5,294)
Other non-cash items	(49)	(181)	(420)
Net Cash Provided by (Used for) Financing and Other Related Activities	(15,643)	12,451	(4,183)
Net Increase in Cash and Cash Equivalents	1,630	696	937
Cash and Cash Equivalents at Beginning of Year	3,148	2,452	1,515
Cash and Cash Equivalents at End of Year	$ 4,778	$ 3,148	$ 2,452
Supplemental Cash Flow Information			
Cash payments of income taxes, net of refunds	$ 12,417	$ 9,804	$ 8,554
Cash payments of interest	$ 10,838	$ 7,761	$ 8,536

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, 1996, 1995 and 1994

(Dollars in Thousands)	Convertible Preferred Stock	Common Stock	Additional Paid-in Capital	Treasury Stock	Cumulative Translation Adjustments	Deferred ESOP Compensation	Retained Earings
Balance, January 1, 1994	$19,992	$ 5,113	$ 3,781	$(4,863)	$ (2,058)	$ (223)	$ 82,475
Sale of 51,940 shares under stock option plan	--	27	290	--	--	--	--
Purchase of 4,222 shares of common and 11,508 shares of preferred treasury stock, net of sales	--	--	21	(327)	--	--	--
Retirement of 250,000 shares of common treasury stock	--	(125)	(121)	3,546	--	--	(3,300)
Conversion of preferred stock to common stock	(12)	--	12	--	--	--	--
Compensation expense	--	--	--	--	--	223	--
Net income	--	--	--	--	--	--	13,845
Cash dividends paid							
Preferred stock ($1.375 per share)	--	--	--	--	--	--	(1,076)
Common stock (42.5c per share)	--	--	--	--	--	--	(4,218)
Preferred stock dividends declared	--	--	--	--	--	--	(267)
Translation adjustments	--	--	--	--	(1,433)	--	--
Two-for-one common stock split (Note 7)	--	5,014	--	--	--	--	(5,014)
Balance, December 31, 1994	19,980	10,029	3,983	(1,644)	(3,491)	--	82,445
Sale of 55,800 shares under stock option plan	--	56	484	--	--	--	--
Purchase of 536 shares of common treasury stock, net of sales	--	--	52	(64)	--	--	--
Conversion of preferred stock to common stock	(51)	2	49	--	--	--	--
Net income	--	--	--	--	--	--	16,119
Cash dividends paid							
Preferred stock ($1.375 per share)	--	--	--	--	--	--	(801)
Common stock (44.75c per share)	--	--	--	--	--	--	(4,471)
Translation adjustments	--	--	--	--	(200)	--	--
Balance, December 31, 1995	19,929	10,087	4,568	(1,708)	(3,691)	--	93,292
Sale of 44,826 shares under stock option plan	--	45	419	--	--	--	--
Purchase of 184,587 shares of common treasury stock, net of sales	--	--	74	(3,492)	--	--	--
Conversion of preferred stock to common stock	(5)	--	5	--	--	--	--
Net income	--	--	--	--	--	--	19,067
Cash dividends paid							
Preferred stock ($1.375 per share)	--	--	--	--	--	--	(1,068)
Common stock (47.75c per share)	--	--	--	--	--	--	(4,778)
Translation adjustments	--	--	--	--	(1,129)	--	--
Balance, December 31, 1996	$19,924	$10,132	$ 5,066	$(5,200)	$ (4,820)	$ --	$ 106,513

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

1. Summary of Significant Accounting Policies

Nature of Operations

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

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

Principles of Consolidation

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

Cash and Cash Equivalents

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

Inventories

Inventories are valued at cost, which is not in excess of market value, and include material, labor and plant overhead costs. The last-in, first-out (LIFO) method is used to determine the cost of most company inventories. The first-in, first-out (FIFO) method is used for all other inventories. Inventories priced at LIFO as of December 31, 1996 and 1995 amounted to 89 percent and 88 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 ($20,509,000, $16,791,000 and $16,468,000 in 1996, 1995 and 1994, respectively), which do not renew or extend the life of the respective assets, are charged to operations currently. The cost of property retired or sold and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income.

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

Environmental Expenditures

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

Intangible Assets

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

Research and Development Costs

The company's research and development costs are expensed as incurred. These expenses are aimed at discovery and commercialization of new knowledge with the intent that such effort will be useful in developing a new product or in bringing about a significant improvement to an existing product or process. Total expenses were $12,469,000, $12,425,000 and $12,281,000 in 1996, 1995 and 1994, respectively. The balance of expenses reflected on the Consolidated Statements of Income relates to technical services which include routine product testing, quality control and sales support service.

Income Taxes

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

Translation of Foreign Currencies

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

Derivative Financial Instruments

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

Long-Lived Assets

Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," requires that operating assets and associated goodwill be written down to fair value whenever an impairment review indicates that the carrying value cannot be recovered on an undiscounted cash flow basis. After any such noncash write-down, results of operations would be favorably affected by reduced depreciation, depletion and amortization charges. During 1996, the company adopted this statement and determined that no impairment loss needs 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. Refer to Note 8.

Per Share Data

Primary earnings per share amounts are computed based on the weighted average number of common shares outstanding: 10,002,000 in 1996, 9,984,000 in 1995 and 9,924,000 in 1994. Common share equivalents resulting from dilutive stock options have been excluded as the dilutive effect was not material. Net income used in computing primary earnings per share has been reduced by dividends paid to preferred stockholders. Fully diluted earnings 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 earnings per share. The number of shares used in the computations of fully diluted earnings per share were 11,154,000 in 1996, 11,038,000 in 1995 and 10,972,000 in 1994.

Reclassifications

Certain amounts in the 1995 and 1994 financial statements have been reclassified to conform with the 1996 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. Acquisition

In April 1996, the company acquired a sulfonation plant from Shell Group in Cologne, Germany. This plant, organized as a German subsidiary, will allow the company to serve European customers with a wide range of sulfate and sulfonate products used in household, personal care, individual, institutional and agricultural markets. 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 1996	1995
Finished products	$ 30,689	$ 32,204
Raw materials	19,553	22,159
Total inventories	$ 50,242	$ 54,363

If the first-in, first-out (FIFO) inventory valuation method had been used, inventories would have been approximately $12,800,000 and $12,100,000 higher than reported at December 31, 1996 and 1995, respectively.

4. Debt

Debt was composed of the following:

(Dollars in Thousands)	Maturity Dates	December 31 1996	1995
Unsecured promissory notes			
7.22%	1999-2008	$ 30,000	$ 30,000
7.77%	2000-2010	30,000	30,000
7.69%	2001-2005	10,000	10,000
9.70%	1997-2006	10,000	10,000
9.52%	1997-1999	6,429	10,714
9.70%	1997-1999	2,667	4,000
10.54%	1997	2,379	5,951
Unsecured bank debt	1998-2001	12,200	13,000
Debt of foreign subsidiaries payable in foreign currency	1997-2003	5,865	2,304
Total debt		109,540	115,969
Less current maturities		6,973	6,946
Long-term debt		$102,567	$109,023

Unsecured bank debt at December 31, 1996, consists of borrowings under a committed $45,000,000 revolving credit agreement which bears interest at varying rates which averaged 6.06 percent during the year. Borrowings under this agreement at May 31, 1998, if any, would convert to a term loan payable over three years. The company must pay a commitment fee of .25 percent per annum on the unused portion of the commitment. Periodically, the company also availed itself of other borrowings under notes payable to banks of which there were no outstanding balances at December 31, 1996 and 1995.

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 $46,689,000 and $37,904,000 at December 31, 1996 and 1995, respectively. The company is in compliance with all loan agreements.

Debt at December 31, 1996, matures as follows: $6,973,000 in 1997; $8,338,000 in 1998; $11,505,000 in 1999; $11,342,000 in 2000; $11,175,000 in 2001 and $60,207,000 after 2001.

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

(Dollars in Thousands)	1996	1995	1994
Interest expense	$ 9,165	$ 9,043	$ 8,428
Interest income	(671)	(629)	(295)
	8,494	8,414	8,133
Capitalized interest	(1,251)	(549)	(997)
Interest, net	$ 7,243	$ 7,865	$ 7,136

5. Leased Properties

The company leases certain property and equipment (primarily transportation equipment, buildings and computer equipment) under operating leases. Total rental expense was $3,474,000, $3,398,000 and $2,994,000 in 1996, 1995 and 1994, respectively.

Minimum future rental payments under operating leases with terms in excess of one year as of December 31, 1996, are:

(Dollars in Thousands)	Year	Amount
	1997	$ 2,228
	1998	1,920
	1999	1,310
	2000	943
	2001	583
	Subsequent to 2001	1,199
Total minimum future rental payments		$ 8,183

6. Income Taxes

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

Taxes on Income (Dollars in Thousands)	1996	1995	1994
Federal			
Current	$ 9,785	$ 3,698	$ 6,732
Deferred	54	2,003	(1,524)
State			
Current	1,863	899	2,020
Deferred	(345)	278	(646)
Foreign			
Current	2,700	1,973	2,299
Deferred	(863)	21	(214)
Total	$13,194	$ 8,872	$ 8,667

Income before Taxes (Dollars in Thousands)	1996	1995	1994
Domestic	$28,420	$18,044	$15,429
Foreign	3,841	6,947	7,083
Total	$32,261	$24,991	$22,512

No federal income taxes have been provided on $22,427,000 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. Based on the current United States and foreign income tax rates, it is anticipated that no additional United States tax would be incurred on any earnings that are expected to be repatriated. 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:

	1996		1995		1994	
(Dollars in Thousands)	Amount	%	Amount	%	Amount	%
Income tax provision at statutory tax rate	$ 11,292	35.0	$ 8,747	35.0	$ 7,879	35.0
State taxes on income less applicable federal tax benefit	987	3.1	765	3.1	893	4.0
Other items	915	2.8	(640)	(2.6)	(105)	(.5)
Total income tax provision	$ 13,194	40.9	$ 8,872	35.5	$ 8,667	38.5

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

(Dollars in Thousands)	1996	1995
Current deferred income taxes		
Gross assets	$ 14,970	$ 9,982
Gross liabilities	(4,267)	(538)
Total current deferred tax assets	10,703	9,444
Non-current deferred income taxes		
Gross assets	6,989	4,313
Valuation allowance	(854)	(409)
Gross liabilities	(42,089)	(40,373)
Total non-current deferred tax liabilities	(35,954)	(36,469)
Net deferred tax liability	$(25,251)	$(27,025)

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

(Dollars in Thousands)	1996	1995
Tax over book depreciation	$(36,691)	$(33,947)
Safe Harbor leases	(3,452)	(3,914)
SFAS No. 87 pension accounting	(2,716)	(2,628)
State income tax accrual	1,377	1,305
Deferred revenue	5,813	3,912
Book reserves deductible in other periods	9,240	8,149
Deferred management compensation	1,412	1,028
Valuation allowance	(854)	(409)
Other, net	620	(521)
Net deferred tax liability	$(25,251)	$(27,025)

7. Stockholders' Equity

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

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

The preferred stock is convertible at the option of the holder at any time (unless previously redeemed) into shares of common stock at a conversion of 1.14175 shares of common stock for each share of preferred stock. Dividends on preferred stock accrue at a rate of $1.375 per share per annum which are cumulative from the date of original issue. The company may not declare and pay any dividend or make any distribution of assets (other than dividends or other distribution payable in shares of common stock) on, or redeem, purchase or otherwise acquire, shares of common stock, unless all accumulated and unpaid preferred dividends have been paid or are contemporaneously declared and paid. The preferred stock is subject to optional redemption by the company, in whole or in part, at any time on or after September 1, 1997, at a redemption price of $25.69 per share reduced annually by $.14 per share to a minimum of $25 per share on or after September 1, 2002, plus accrued and unpaid dividends thereon to the date fixed for redemption. The aggregate liquidation preference is approximately $20 million at December 31, 1996 and 1995. Preferred stock is entitled to 1.14175 votes per share on all matters submitted to stockholders for action, and votes together with the common stock as a single class, except as otherwise provided by law or the Certificate of Incorporation of the company. There is no mandatory redemption or sinking fund obligation with respect to the preferred stock.

At December 31, 1996, treasury stock consists of 20,208 shares of preferred stock and 269,403 shares of common stock. At December 31, 1995, treasury stock consisted of 20,208 shares of preferred stock and 84,816 shares of common stock.

8. Stock Option Plans

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

The company accounts for these plans under APB Opinion No. 25, under which no compensation cost has been recognized. Had compensation cost for the 1992 Plan been determined based on the fair value at the grant date for awards in 1996 and 1995 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)	1996	1995
Net Earnings - as reported	$19,067	$ 16,119
Net Earnings - pro forma	18,556	16,117
Primary Earnings per share - as reported	$ 1.80	$ 1.51
Primary Earnings per share - pro forma	1.75	1.51
Fully Diluted Earnings per share - as reported	1.71	1.46
Fully Diluted Earnings per share - pro forma	1.66	1.46

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

A summary of the status of the company's stock option plans at December 31, 1996, 1995 and 1994 and changes during the years then ended is presented as follows:

	1996 Shares	Weighted-Average Exercise Price	1995 Shares	1994 Shares
Options outstanding, beginning of year	1,044,810	$ 13.62	1,126,704	714,244
Options exercised	(44,826)	10.34	(55,800)	(51,940)
Options cancelled	(5,112)	16.57	(27,088)	--
Options granted	271,380	19.75	994	464,400
Options outstanding, end of year	1,266,252	15.04	1,044,810	1,126,704
Option price range at end of year	$ 9.43750- $ 19.75000		$ 8.12500- $ 19.62500	$ 8.12500- $ 18.21875
Option price range for exercised shares	$ 8.12500- $ 18.21875		$ 8.12500- $ 14.68750	$ 3.84375- $ 12.09375
Options available for grant at end of year	647,122		913,390	887,296
Weighted-average fair value of options, granted during the year	$ 6.35		$ 6.38	--

A summary of stock options outstanding at December 31, 1996, is as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number Outstanding at 12/31/96	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 12/31/96	Weighted-Average Exercise Price
$ 9.43750 - $ 9.65625	234,000	1.80	$ 9.55	234,000	$ 9.55
$12.09375 - $14.00000	537,600	6.72	13.72	537,600	13.72
$18.21875 - $19.75000	494,652	7.54	19.06	222,278	18.22
	1,266,252	6.13	$15.04	993,878	$13.74

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, 1996, include $8,558,000 of the company's common stock.

Net 1996, 1995 and 1994 periodic pension cost for the plans consists of the following:

(Dollars in Thousands)	1996	1995	1994
Service cost	$ 1,664	$ 1,244	$ 1,639
Interest cost on projected benefit obligation	2,700	2,383	2,454
Actual return on plan assets	(6,732)	(8,653)	1,190
Net amortization and deferral	2,478	4,611	(5,449)
Net pension expense (income)	$ 110	$ (415)	$ (166)

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)	1996	1995
Vested benefit obligation	$(27,013)	$(24,909)
Accumulated benefit obligation	(30,306)	(28,030)
Projected benefit obligation	(37,696)	(35,329)
Plan assets at fair value	52,304)	46,455
Plan assets in excess of projected benefit obligation	14,608	11,126
Unrecognized net gain	(6,871)	(3,173)
Unamortized net transitional assets	(2,268)	(2,835)
Unamortized prior service cost	1,140	1,244
Prepaid pension asset	$ 6,609	$ 6,362

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

The projected benefit obligations were determined using a discount rate of 7.75 and 7.5 percent for 1996 and 1995, respectively. The projected benefit obligations were determined under assumed compensation increases ranging from five percent to seven percent for different employee groups for 1996 and 1995. The assumed long-term rate of return on plan assets was 8.5 percent for 1996 and 1995. The plans' net transitional assets are being amortized over a period of 15 years. The prior service costs are being amortized over an average of 12 years.

10. Accrued Liabilities

Accrued liabilities consisted of:

	December 31	
(Dollars in Thousands)	1996	1995
Accrued payroll and benefits	$ 11,236	$ 12,121
Accrued environmental and legal matters (Note 12)	4,500	5,100
Other accrued liabilities	17,250	16,601
Total accrued liabilities	$ 32,986	$ 33,822

11. Other Non-current Liabilities

Other non-current liabilities were comprised of the following:

December 31

(Dollars in Thousands)	1996	1995
Deferred revenue	$ 10,974	$ 7,659
Environmental and legal matters (Note 12)	16,526	3,601
Total other non-current liabilities	$ 27,500	$ 11,260

During 1996 and 1994, 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, 1996 and 1995 is $14,538,000 and $10,059,000, 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 $26.5 million at December 31, 1996, compared to $4.3 million to $23.6 million at December 31, 1995. At December 31, 1996, the company's reserve is $21.0 million for legal and environmental matters compared to $8.7 million at December 31, 1995. In 1996, the company recorded $24.0 million of insurance recoveries which represented a combination of settlements of litigations for all known environmental sites and a policy buyback from the company's primary insurers. $4.2 million of the settlements was credited to income for legal costs related to these recoveries. As a result, the company increased its reserve for legal and environmental matters to a more conservative position. The company made payments of $8.2 million in 1996 and $7.8 million in 1995 related to legal costs, settlements and costs related to remedial design studies at various sites.

The 1995 provision included an additional $5.0 million charge for costs that may be incurred for the remediation of the company's Maywood, New Jersey plant and adjacent property based on a draft Remedial Investigation Feasibility Study prepared for that site. During 1994, the company received $3.1 million from insurers related to previously incurred legal costs which reduced administrative expense in the Consolidated Statements of Income.

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 1996 Form 10-K Annual Report and in other filings of the company with the Securities and Exchange Commission, which are available upon request from the company.

13. Geographic Data

(Dollars in Thousands)	1996	1995	1994
United States			
Net Sales -- Unaffiliated	$ 449,544	$ 452,013	$ 377,986
Interarea Transfers	15,338	13,052	10,701
Total	$ 464,882	$ 465,065	$ 388,687
Operating Income	37,034	25,938	22,709
Identifiable Assets	333,598	315,393	279,919
Other			
Net Sales -- Unaffiliated	$ 87,091	$ 76,205	$ 65,962
Interarea Transfers	20,025	19,971	16,426
Total	$ 107,116	$ 96,176	$ 82,388
Operating Income	3,352	6,682	7,144
Identifiable Assets	47,414	47,134	45,029
Eliminations			
Net Sales	$ (35,363)	$ (33,023)	$ (27,127)
Consolidated			
Net Sales	$ 536,635	$ 528,218	$ 443,948
Operating Income	40,386	32,620	29,853
Identifiable Assets	381,012	362,527	324,948

Interarea transfers consist principally of surfactant intermediates and finished products. They are generally transferred at cost plus an appropriate mark-up for profit. Marketing and services in the United States, Canada and Mexico are managed as a single enterprise. However, in compliance with Statement of Financial Accounting Standards 14, "Financial Reporting for Segments of a Business Enterprise," the United States is reported as a separate geographic area. Other includes subsidiaries in Canada, Mexico and Europe. Prior years' information has been reclassified to conform with current year's presentation.

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

For the Year	1996	1995	1994	1993	1992
Net Sales	$ 536,635	$ 528,218	$ 443,948	$ 438,825	$ 435,764
Operating Income*	40,386	32,620	29,853	27,335	24,009
Percent of net sales	7.5%	6.2%	6.7%	6.2%	5.5%
Pre-tax Income	32,261	24,991	22,512	19,624	17,365
Percent of net sales	6.0%	4.7%	5.1%	4.5%	4.0%
Provision for Income Taxes	13,194	8,872	8,667	8,848	6,942
Net Income	19,067	16,119	13,845	10,776	15,829/(e)/
Per share/(a) (b)/	1.80	1.51	1.29	.98	1.46
Percent of net sales	3.6%	3.1%	3.1%	2.5%	3.6%
Percent to stockholders' equity/(c)/	15.6%	14.5%	13.3%	10.8%	17.4%
Cash Dividends Paid	5,846	5,540	5,294	5,105	4,172
Per common share/(a)/	.4775	.4475	.4250	.4050	.3700
Depreciation and Amortization	32,138	30,384	28,935	27,679	23,914
Capital Expenditures	44,923	39,247	42,884	25,435	34,440
Average Common Shares Outstanding/(a)/	10,002	9,984	9,924	9,894	10,572
As of Year End					
Working Capital*	$ 70,322	$ 66,856	$ 48,915	$ 48,569	$ 44,265
Current Ratio*	1.8	1.8	1.6	1.7	1.6
Property, Plant and Equipment, net	207,159	192,470	183,657	170,270	167,930
Total Assets	381,012	362,527	324,948	300,488	297,080
Long-term Debt, less current maturities	102,567	109,023	89,795	89,660	90,505
Stockholders' Equity	131,615	122,477	111,302	104,217	99,506
Per share/(a) (d)/	12.24	11.25	10.27	9.65	9.22
Number of Employees	1,270	1,267	1,265	1,302	1,317

/(a)/ Adjusted for two-for-one common stock split in 1994.
/(b)/ Based on 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.
/(e)/ Reflected cumulative effect of accounting changes for income taxes and investment tax credits of $5.4 million, or $.51 per primary share and $.49 per fully diluted share.

* Prior years' data has been restated to conform with the 1996 presentation.

Quarterly Stock Data (Unaudited)

	Stock Price Range				Dividends Paid Per Common Share	
	1996		1995		1996	1995
Quarter	High	Low	High	Low		
First	$ 19-3/4	$ 15-3/4	$ 19-1/2	$ 14-3/4	11.75c	11.00c
Second	20-1/2	18	20-7/8	17	11.75c	11.00c
Third	19	17	17-3/4	15-5/8	11.75c	11.00c
Fourth	20-1/2	16-7/8	17-1/2	15	12.50c	11.75c
Year	20-1/2	15-3/4	20-7/8	14-3/4	47.75c	44.75c

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

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

	1995				
Quarter	First	Second	Third	Fourth	Year
Net Sales	$ 134,786	$ 136,258	$ 130,410	$ 126,764	$ 528,218
Gross Profit*	26,606	25,662	20,668	24,231	97,167
Interest, net	(1,864)	(2,128)	(2,046)	(1,827)	(7,865)
Pre-tax Income (Loss)	9,936	8,506	(879)	7,428	24,991
Net Income (Loss)	6,109	5,418	(550)	5,142	16,119
Net Income (Loss) per Share	.59	.52	(.08)	.49	1.51

* Restated to conform with the current year income statement presentation.

EXHIBIT (21)

STEPAN COMPANY

SUBSIDIARIES OF REGISTRANT

SUBSIDIARY	ORGANIZED UNDER THE LAWS OF:
Stepan Europe S.A.	France
Stepan Canada, Inc	Canada
Stepan Mexico, S.A. de C.V	Mexico
Stepan Deutschland GmbH	Germany

EXHIBIT (23)

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports dated February 11, 1997, included or incorporated by reference in Stepan Company's Annual Report in this Form 10-K for the year ended December 31, 1996, 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 25, 1997

EXHIBIT (24)

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 25th day of March 1997.

/s/ F. Quinn Stepan

F. Quinn Stepan

/s/ Thomas F. Grojean

Thomas F. Grojean

/s/ James A. Hartlage

James A. Hartlage

/s/ Walter J. Klein

Walter J. Klein

/s/ Paul H. Stepan

Paul H. Stepan

/s/ Robert D. Cadieux

Robert D. Cadieux

/s/ Robert G. Potter

Robert G. Potter

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 1996 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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12-MOS
DEC-31-1996
DEC-31-1996
4,778
0
87,091
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50,242
153,698
497,882
290,723
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83,376
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381,012
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536,635
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19,067
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1.71