

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 1994

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

1-4462

Commission File Number

STEPAN COMPANY

(Exact name of registrant as specified in its charter)

Delaware

36 1823834

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification Number)

Edens and Winnetka Road Northfield, Illinois 60093

(Address of principal executive offices)

Registrant's telephone number

(708) 446-7500

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

Yes    X    No  
\_\_\_\_\_

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

Class

Outstanding at October 31, 1994

Common Stock, \$1 par value

4,972,000 Shares

Part I FINANCIAL INFORMATION

Item 1 - Financial Statements

STEPAN COMPANY  
CONDENSED CONSOLIDATED BALANCE SHEETS  
September 30, 1994 and December 31, 1993  
Unaudited

(Dollars in Thousands)	9/30/94	12/31/93
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ASSETS		
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CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,799	\$ 1,515
Receivables, net	65,024	57,250
Inventories (Note 3)	42,608	48,918
Other current assets	11,604	11,477
	-----	-----
Total current assets	121,035	119,160
	-----	-----
PROPERTY, PLANT AND EQUIPMENT:		
Cost	410,788	378,828
Less accumulated depreciation	229,346	208,558
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	181,442	170,270
	-----	-----
OTHER ASSETS		
	10,888	11,058
	-----	-----
Total assets	\$313,365	\$300,488
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
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CURRENT LIABILITIES:		
Current maturities of long-term debt	\$ 8,128	\$ 7,447
Accounts payable	32,168	34,832
Accrued liabilities	27,187	28,312
	-----	-----
Total current liabilities	67,483	70,591
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DEFERRED INCOME TAXES		
	36,144	36,020
	-----	-----
LONG-TERM DEBT, less current maturities (Note 4)		
	91,520	89,660
	-----	-----
DEFERRED REVENUE (Note 9)		
	5,983	-
	-----	-----
STOCKHOLDERS' EQUITY:		
5-1/2% convertible preferred stock, cumulative, voting without par value; authorized 2,000,000 shares; issued 799,684 shares in 1994 and in 1993	19,992	19,992
Common stock, \$1 par value; authorized 15,000,000 shares; issued 5,008,394 shares in 1994 and 5,113,024 shares in 1993	5,008	5,113
Additional paid-in capital	3,880	3,781
Cumulative translation adjustments	(562)	(2,058)
Retained earnings (approximately \$35,748 unrestricted in 1994 and \$32,789 in 1993)	85,455	82,475
	-----	-----
	113,773	109,303

Less - Treasury stock, at cost (Note 6)	1,482	4,863
Deferred ESOP compensation	56	223
	-----	-----
Stockholders' equity	112,235	104,217
	-----	-----
Total liabilities and stockholders' equity	\$313,365	\$300,488
	=====	=====

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

STEPAN COMPANY  
CONSOLIDATED STATEMENTS OF INCOME  
For the Three and Nine Months Ended September 30, 1994 and 1993  
Unaudited

(In Thousands, except per share amounts)	Three Months Ended September 30		Nine Months Ended September 30	
	1994	1993	1994	1993
	-----	-----	-----	-----
NET SALES	\$110,761	\$111,111	\$330,345	\$336,309
COSTS AND EXPENSES:				
Cost of Sales (Note 7)	89,778	89,962	269,562	271,630
General and Administrative (Note 8)	4,082	4,321	12,320	13,333
Marketing	4,196	4,061	12,535	12,355
Research, Development and Technical Services	4,127	4,210	13,290	12,908
Interest, net (Note 4)	1,639	1,869	5,360	5,660
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	103,822	104,423	313,067	315,886
	-----	-----	-----	-----
PRE-TAX INCOME	6,939	6,688	17,278	20,423
PROVISION FOR INCOME TAXES	2,827	3,518	7,066	9,198
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NET INCOME	\$ 4,112	\$ 3,170	\$ 10,212	\$ 11,225
	=====	=====	=====	=====
NET INCOME PER COMMON SHARE (Note 5)				
Primary	\$ 0.77	\$ 0.59	\$ 1.90	\$ 2.10
	=====	=====	=====	=====
Fully Diluted	\$ 0.75	\$ 0.58	\$ 1.86	\$ 2.04
	=====	=====	=====	=====
DIVIDENDS PER COMMON SHARE	\$ 0.21	\$ 0.20	\$ 0.63	\$ 0.60
	=====	=====	=====	=====
AVERAGE COMMON SHARES OUTSTANDING	4,969	4,952	4,959	4,947
	=====	=====	=====	=====

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

STEPAN COMPANY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the Nine Months Ended September 30, 1994 and 1993  
Unaudited

(Dollars in Thousands)	9/30/94	9/30/93
	-----	-----
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net income	\$10,212	\$11,225
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	22,114	20,935
Deferred taxes	1,218	3,046
Recognition of prepaid pension cost	(156)	(536)
Other non-cash items	536	430
Deferred revenue (Note 9)	5,983	-
Changes in Working Capital:		
Receivables, net	(7,774)	(3,360)
Inventories	6,310	2,305
Accounts payable and accrued liabilities	(4,781)	(11,310)
Other	(60)	68
	-----	-----
Net Cash Provided by Operating Activities	33,602	22,803
	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Expenditures for property, plant and equipment	(31,856)	(18,519)
Investment in joint venture	(1,000)	(1,422)
Other non-current assets	(578)	(676)
	-----	-----
Net Cash Used for Investing Activities	(33,434)	(20,617)
	-----	-----
<b>CASH FLOWS FROM FINANCING AND OTHER RELATED ACTIVITIES</b>		
Revolving debt and notes payable to banks, net	14,672	(17,806)
Other debt borrowings	-	30,000
Other debt repayments	(11,268)	(12,303)
Purchases of treasury stock, net of sales	(164)	(273)
Dividends paid	(3,932)	(3,794)
Other	808	(155)
	-----	-----
Net Cash Provided by (Used for) Financing and Other Related Activities	116	(4,331)
	-----	-----
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
	284	(2,145)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	\$ 1,515	\$ 2,915
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 1,799	\$ 770
	=====	=====
<b>CASH PAID DURING THE PERIOD FOR:</b>		
Interest	\$ 5,701	\$ 5,120
Income taxes	\$ 7,166	\$ 5,421

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

STEPAN COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 1994 and December 31, 1993

Unaudited

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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The condensed consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although Management believes that the disclosures are adequate and make the information presented not misleading. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and the notes thereto included in the Company's latest Annual Report to Stockholders and the Annual Report to the Securities and Exchange Commission on Form 10-K for the year ended December 31, 1993. In the opinion of Management all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the consolidated financial position of Stepan Company as of September 30, 1994 and the consolidated results of operations for the three and nine months then ended, and cash flows for the nine months then ended, have been included.

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

2. ENVIRONMENTAL EXPENDITURES  
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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 will base its estimates include information provided by feasibility studies, potentially responsible party negotiations and the development of remedial action plans. Liabilities are recorded at gross amounts of probable future cash outlays and are not discounted to reflect the time value of money. While the Company has insurance policies that may cover some of its liabilities, it does not record those claims until such time as they become probable.

Expenditures that mitigate or prevent environmental contamination that has yet to occur and that otherwise may result from future operations, are capitalized. Capitalized expenditures are depreciated generally utilizing a 10-year life.

3. INVENTORIES

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Inventories include the following amounts:

(Dollars in Thousands)	9/30/94	12/31/93
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Inventories valued primarily on LIFO basis -		
Finished products	\$25,139	\$27,269
Raw materials	17,469	21,649
	-----	-----
Total inventories	\$42,608	\$48,918
	=====	=====

If the first-in, first-out (FIFO) inventory valuation method had been used for all inventories, inventory balances would have been approximately \$11,500,000 and \$9,700,000 higher than reported at September 30, 1994 and December 31, 1993, respectively.

4. DEBT

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Long-term debt includes unsecured bank debt of \$23.6 million and \$7.0 million at September 30, 1994 and December 31, 1993, respectively. The unsecured bank debt is available to the Company under a line of credit based on rates that fluctuate daily. The average interest rate on unsecured bank debt for the three month period ended September 30 was 5.26 percent and 3.93 percent for 1994 and 1993, respectively. For the nine months ended September 30, 1994 and 1993, the average interest rate was 4.89 percent and 3.91 percent, respectively.

5. NET INCOME PER COMMON SHARE

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Primary net income per common share amounts are computed by dividing net income, less the convertible preferred stock dividend requirement, by the weighted average number of common shares outstanding. Fully diluted net income per share amounts are based on an increased number of common shares that would be outstanding assuming the exercise of certain outstanding stock options and the conversion of the convertible preferred stock, when such conversion would have the effect of reducing net income per share. For computation of earnings per share, reference should be made to Exhibit 11.

6. TREASURY STOCK

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At September 30, 1994, treasury stock consists of 20,208 shares of preferred stock and 37,575 shares of common stock. At December 31, 1993, treasury stock consisted of 8,700 shares of preferred stock and 165,029 shares of common stock.

During the third quarter of 1994, 125,000 shares of common stock from treasury were retired. The excess of the costs of the treasury shares over par (\$3.4 million) was charged against additional paid-in capital and retained earnings for \$.1 million and \$3.3 million, respectively.

7. COST OF SALES

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Cost of sales for the first nine months of 1994 includes a pre-tax gain of \$950,000 arising from the settlement of claims filed against the Company's insurance carrier in connection with production outages and business interruption suffered in the phthalic anhydride business in 1993.

8. GENERAL AND ADMINISTRATIVE EXPENSES

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During the three month and nine month periods ended September 30, 1994, the Company received \$.5 million and \$2.0 million, respectively, for insurance recoveries of legal costs previously incurred in defending environmental actions against the Company. The Company recorded the recoveries as reductions to the current year's legal and environmental expense which is included in the "General and Administrative" caption on the Consolidated Statements of Income. As discussed in Note 10, the Company is involved in certain environmental actions. While further recoveries are possible in the future, the Company only recognizes them as they become probable.

9. DEFERRED REVENUE

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During the first nine months of 1994, the Company received partial prepayments on certain multi-year commitments for future shipments of products. Upon shipment, sales will be included in the Company's consolidated statement of income along with the related cost of sales. As the commitments are fulfilled, a proportionate share of the deferred revenue will be taken into income. Related deferred revenue at September 30, 1994 is \$6.0 million which is included in the "Deferred Revenue" caption of the Condensed Consolidated Balance Sheets.

10. CONTINGENCIES

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There are a variety of legal proceedings pending or threatened against the Company. Some of these proceedings may result in fines, penalties, judgments or costs being assessed against the Company at some future time. The Company's operations are subject to extensive local, state and federal regulations, including the Federal Comprehensive



Environmental Response, Compensation and Liability Act of 1980 ("Superfund") and the Superfund amendments of 1986. The Company, and others, have been named as potentially responsible parties at affected geographic sites. As discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in this filing, the Company believes that it has made adequate provisions for the costs it may incur with respect to these sites. The Company has estimated a range of possible environmental and legal losses from \$5.0 million to \$21.5 million at September 30, 1994. At September 30, 1994, the Company's reserve was \$6.5 million for legal and environmental matters compared to \$7.2 million at December 31, 1993. While the Company has insurance policies that may cover some of its environmental costs, it does not record those claims until such time as they become probable. During the three month and nine month periods ended September 30, 1994, the Company received \$.5 million and \$2.0 million, respectively, from insurers related to legal costs previously incurred by the Company. The recoveries were included in income and reduced General and Administrative Expense in the Consolidated Statements of Income. There were no insurance recoveries recorded in 1993.

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 1993 Form 10-K Annual Report and in other filings of the Company with the Securities and Exchange Commission, which filings are available upon request from the Company.

11. RECLASSIFICATIONS

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Certain amounts in the 1993 financial statements have been reclassified to conform with the 1994 presentation.

STEPAN COMPANY

Management's Discussion and Analysis of  
Financial Condition and Results of Operations

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

LIQUIDITY AND FINANCIAL CONDITION  
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For the first three quarters of 1994, cash from operations totaled \$33.6 million compared to \$22.8 million for the same period in 1993. Net income, adjusted for non-cash items, totaled \$33.9 million, compared to \$35.1 million last year. Included in cash flow from operations for 1994 is \$6.0 million in advances from customers for future delivery of products. During 1994, working capital items comprised a \$6.3 million use of cash compared to \$12.3 million during 1993.

Capital expenditures totaled \$31.9 million for the first nine months of 1994, up from \$18.5 million for the same period last year. It is expected that total expenditures for 1994 will approximate \$45 million, compared to \$25.4 million spent in 1993 which represented a five-year low for the Company. A significant portion of the projected spending relates to a specific capacity expansion project for the production of concentrated products. Separately, the Company repaid a \$1.0 million note related to its Colombian joint venture entered into a year ago.

Since December 31, 1993, total company debt has increased by \$2.5 million. Since year end, the ratio of long-term debt to long-term debt plus shareholders' equity has fallen from 46.2 percent to 44.9 percent.

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

The Company anticipates that cash from operations and from committed credit facilities will be sufficient to meet anticipated capital expenditure programs, dividend requirements and other planned financial commitments in 1994 and for the foreseeable future.

RESULTS OF OPERATIONS  
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Three Months Ended September 30, 1994 and 1993  
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Net income for the third quarter ended September 30, 1994 was \$4.1 million, or \$.77 per share, up 30 percent from \$3.2 million, or \$.59 per share for the same quarter a year ago. A lower tax provision accounted for most of the increase in net income. A U.S. tax rate hike, resulting in an

upward restatement of previously deferred tax liabilities, caused the unusually large 1993 third quarter tax provision. Also favorably impacting the current quarter results was a \$384,000 after-tax benefit from insurance recoveries relating to previously incurred legal, environmental and property damage costs. Net sales declined less than one percent to \$110.8 million, down from \$111.1 million reported a year earlier. Net sales by product group were

(Dollars in Thousands)	Three Months Ended September 30		
	1994	1993	% Change
Surfactants	\$ 79,306	\$ 81,316	-2
Polymers	21,742	20,541	+6
Specialty Products	9,713	9,254	+5
Total	\$110,761	\$111,111	-

Surfactants net sales decreased \$2.0 million or two percent from the comparable quarter in 1993. Domestic operations reported a \$2.6 million decline in sales, partially offset by a \$.6 million increase in foreign operations. The decrease in the domestic operation was due primarily to the reduced volume of the larger national customers which was attributable to product reformulations, partially offset by a four percent volume increase of the broad commercial customer base. The increase in international sales was primarily attributable to a strong 57 percent increase in volume in the Mexican subsidiary, slightly offset by lower European volume.

Surfactants gross profit decreased \$2.2 million or 14 percent to \$13.9 million for the third quarter of 1994 compared to \$16.1 million a year ago. The unfavorable results arose from the lost volume of the larger national customers and continued competitive pricing pressure reported by the European subsidiary. Partially offsetting the unfavorable results were improved volume and margin in both the Mexican and Canadian subsidiaries.

Polymers net sales increased \$1.2 million or six percent from the same quarter a year earlier. Volume improvements in phthalic anhydride (PA) and polyurethane polyols were the main causes of the sales increase. Substantially offsetting the increase were weak polyurethane systems sales which decreased by \$2.9 million on a 53 percent volume loss. Improved PA volume was driven mainly by greater marketplace demand and decreased foreign imports. Delays in commercialization of new products with more favorable environmental characteristics contributed to the 53 percent volume decline in polyurethane systems.

Polymers gross profit rose \$1.6 million or 55 percent to \$4.5 million for the current quarter from \$2.9 million reported in the prior year. The increase was due entirely to improved earnings in PA and polyurethane polyols. PA's improvement was principally attributable to higher volume and lower manufacturing costs. While polyurethane polyols recorded higher gross profit on higher

sales, increased export freight expenses partially offset the margin. Negatively impacting the results were lower polyurethane systems earnings resulting primarily from decreased sales volume.

Specialty products sales were up \$.5 million or five percent from the same quarter in 1993. Contributing to this result was a 14 percent volume gain over last year's quarter. Lubricant additives and food additives led the volume gains.

Specialty products gross profit increased \$.5 million, or 22 percent to \$2.6 million from last year due primarily to the higher sales. Partially offsetting the result was a decline in royalty income compared to the prior year's quarter.

Operating expenses recorded a slight one percent decline. Reflected in the result were insurance recoveries of \$451,000 relating to prior legal defense costs on environmental cases against the Company. (See also Note 8 of the Notes to Condensed Consolidated Financial Statements). The recoveries are recorded as reductions to the current quarter's administrative expenses.

Nine Months Ended September 30, 1994 and 1993

Net income for the nine months ended September 30, 1994 was \$10.2 million, or \$1.90 per share, down nine percent from \$11.2 million, or \$2.10 per share for the same period a year ago. The unfavorable results were largely attributable to lower surfactants earnings despite improved polymers performance. Insurance recoveries related to previously incurred legal, environmental, production outages and property damage costs contributed a \$1.9 million after-tax benefit to the year-to-date results. A lower tax provision, as discussed earlier, also favorably contributed to the year-to-date results. Net sales fell a moderate two percent to \$330.3 million, down from \$336.3 million recorded a year ago. Net sales by product group were

(Dollars in Thousands)	Nine Months Ended September 30		% Change
	1994	1993	
Surfactants	\$246,174	\$248,827	-1
Polymers	56,656	60,865	-7
Specialty Products	27,515	26,617	+3
Total	\$330,345	\$336,309	-2

Surfactants net sales were down slightly for the first nine months of 1994 compared to the same period a year ago. Domestic sales were down two percent due mostly to volume losses of larger national customers who reformulated their products. Partially offsetting this was a 10 percent volume growth in the broad commercial customer base. Foreign operations reported a two percent increase in sales. The Mexican and Canadian subsidiaries posted 31 percent and 12

percent volume gains, respectively, while the moderate European subsidiary's volume growth was more than offset by reduced selling prices in response to competitive pressures.

Surfactants gross profit dropped \$3.6 million or seven percent to \$46.2 million for the first nine months of 1994 compared to \$49.8 million a year ago. The decrease was primarily attributed to the lower domestic volume to larger national customers and the reduced margin from the European subsidiary. Partially offsetting this was encouraging volume growth in Canadian and Mexican operations.

Polymers net sales fell \$4.2 million or seven percent from the same period a year earlier. Polyurethane systems accounted for the majority of the sales decline which was partially offset by an 18 percent growth in polyurethane polyols sales on an 18 percent volume gain. Lower polyurethane systems sales were due to a 41 percent volume decline attributable to delays in new product roll-outs. Despite a 10 percent climb in sales volume, PA sales approximated those of a year ago due to lower raw material prices and pricing pressures from foreign imports during the earlier quarters.

Polymers gross profit rose \$.6 million or seven percent to \$9.4 million for the first nine months of 1994 compared to \$8.8 million recorded a year ago. This was mainly due to the improving results for PA which included a \$950,000 pre-tax insurance recovery related to 1993 production outages. Despite the significant drop in polyurethane systems sales and volume, gross profit only declined 14 percent due primarily to the development of lower cost formulations. While polyurethane polyols posted increased sales and volume, higher manufacturing expenses and export freight costs nearly offset all the volume gains.

Specialty products sales were up \$.9 million or a moderate three percent from the same nine month period in 1993 on a strong volume gain of 17 percent. Lubricant additives and industrial chemicals accounted for a majority of the volume increase, partially offset by a drop in food ingredients.

Specialty products gross profit fell \$1.0 million, or 16 percent to \$5.1 million for the first nine months in 1994. Despite the increased sales and volume noted above, the decline in gross profit was largely attributable to reduced royalty income compared to a year earlier.

Operating expenses declined one percent reflecting lower administrative expenses partially offset by higher research and development spending for the first nine months of 1994. The reduced administrative expenses were due primarily to the \$2,002,000 pre-tax, or \$1,181,000 after-tax, insurance recoveries relating to legal costs previously incurred in defending environmental cases against the Company. (See also Note 8 of the Notes to Condensed Consolidated Financial Statements). Partially offsetting these favorable results was an increased provision for legal and environmental costs. Research and product development expenses increased three percent mainly for salaries, while marketing expenses were up one percent between years.

## ENVIRONMENTAL AND LEGAL MATTERS

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The Company is subject to extensive federal, state and local environmental laws and regulations. Although the Company's environmental policies and practices are designed to ensure compliance with these laws and regulations, future developments and increasingly stringent environmental regulation could require the Company to make additional unforeseen environmental expenditures. The Company will continue to invest in the equipment and facilities necessary to comply with existing and future regulations. During the first nine months of 1994, Company expenditures for capital projects related to the environment were \$4.1 million and should approximate \$5.2 million for the full year 1994. These projects are capitalized and typically depreciated over 10 years. Capital spending on such projects is likely to continue at these or higher levels in future years. Recurring costs associated with the operation and maintenance of environmental protection facilities in ongoing operations were \$5.4 million for the first nine months of 1994. 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 15 waste disposal sites where cleanup costs have been or may be incurred under the Federal Comprehensive Environmental Response, Compensation and Liability Act and similar state statutes. In addition, damages are being claimed against the Company in general liability actions for alleged personal injury or property damage in the case of some disposal and plant sites. The Company believes that it has made adequate provisions for the costs it may incur with respect to these sites. The Company has estimated a range of possible environmental and legal losses from \$5.0 million to \$21.5 million at September 30, 1994. At September 30, 1994, the Company's reserve was \$6.5 million for legal and environmental matters compared to \$7.2 million at December 31, 1993. During the first nine months of 1994, expenditures related to legal and environmental matters approximated \$3.1 million. During the first nine months of 1994, the Company has recovered \$2.0 million of legal costs from insurance claims. The recoveries are recorded as a reduction to the current year's legal and environmental expense. (See also Note 8 of the Notes to Condensed 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 1993 Form 10-K Annual Report and in other filings of the Company with the Securities and Exchange Commission, which filings are available upon request from the Company.

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Item 1 - Legal proceedings

Reference is made to the Company's Annual Report Form 10-K for the year ended December 31, 1993 concerning the Company's Maywood, New Jersey facility and the Remedial Investigation and Feasibility Study being conducted at that site. Based on newspaper reports, the Company believes that during the year, the United States Environmental Protection Agency ("EPA") and the United States Department of Energy ("DOE") reached an agreement with regard to the clean-up standards for mixed waste, (i.e. chemically and radiologically contaminated waste.) Under the agreement, the DOE would clean-up to a standard of 15 pico curries. The State of New Jersey has objected to this standard and would like a clean-up standard of 5 pico curries. The impact of this split in clean-up standards could have an impact on the costs which the Company may incur. The Company cannot now, however, estimate what additional liability, if any, will be incurred.

On October 24, 1994, the Company received a Request for Information from the Commonwealth of Massachusetts Department of Environmental Protection relating to the Company's formerly-owned site at 51 Eames Street, Wilmington, Massachusetts, and alleged releases at this site. The Company is in the process of gathering information and cannot make a determination as to what liability, if any, it may have.

On April 11, 1994, the Company was served in an action entitled "General Electric Company vs. Buzby Brother Material Corp." (CA 87-4263 JHR) which action sought to recover damages for alleged dumping of hazardous materials at the Voorhes Township Landfill in New Jersey. The Company has settled this action, subject to final documentation.

As reported previously in the Company's Quarterly Report Form 10-Q for the quarter ended September 30, 1993, the Company is involved at the Ewan, Shamong Township, and D'Imperio, Hamilton Township, sites in New Jersey. Attempts to reach an allocation for costs at these sites among the various parties by mediation have not been successful. As a consequence, the Company believes that it will be involved in protracted litigation involving these sites.

## Item 6 - Exhibits and Reports on Form 8-K

## (A) Exhibits

- (11) Statement re Computation of Per Share Earnings
- (27) Financial Data Schedule

## (B) Reports on Form 8-K

None

SIGNATURES

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

STEPAN COMPANY

/s/ Walter J. Klein

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

Date: 11/11/94  
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STEPAN COMPANY  
STATEMENT RE COMPUTATION OF PER SHARE EARNINGS  
For the Three and Nine Months Ended September 30, 1994 and 1993  
Unaudited

(In Thousands, except per share amounts)

	Three Months Ended September 30		Nine Months Ended September 30	
	1994	1993	1994	1993
<b>Computation of Per Share Earnings</b>				
Net income	\$4,112	\$3,170	\$10,212	\$11,225
Deduct dividends on preferred stock	269	275	808	825
Income applicable to common stock	<u>\$3,843</u>	<u>\$2,895</u>	<u>\$ 9,404</u>	<u>\$10,400</u>
Weighted average number of shares outstanding	4,969	4,952	4,959	4,947
Per share earnings *	<u>\$0.773</u>	<u>\$0.585</u>	<u>\$1.896</u>	<u>\$2.102</u>
<b>Computation of Per Share Primary Earnings</b>				
Income applicable to common stock	<u>\$3,843</u>	<u>\$2,895</u>	<u>\$9,404</u>	<u>\$10,400</u>
Weighted average number of shares outstanding	4,969	4,952	4,959	4,947
Add net shares issuable from assumed exercise of options (under treasury stock method)	67	100	72	106
Shares applicable to primary earnings	<u>5,036</u>	<u>5,052</u>	<u>5,031</u>	<u>5,053</u>
Per share primary earnings *	<u>\$0.763</u>	<u>\$0.573</u>	<u>\$1.869</u>	<u>\$2.058</u>
Dilutive effect	1.3%	2.1%	1.4%	2.1%
<b>Computation of Per Share Fully Diluted Earnings</b>				
Net income	<u>\$4,112</u>	<u>\$3,170</u>	<u>\$10,212</u>	<u>\$11,225</u>
Weighted average number of shares outstanding	4,969	4,952	4,959	4,947
Add net shares issuable from assumed exercise of options (under treasury stock method)	90	100	90	106
Add weighted average shares issuable from assumed conversion of convertible preferred stock	445	457	448	457
Shares applicable to fully diluted earnings	<u>5,504</u>	<u>5,509</u>	<u>5,497</u>	<u>5,510</u>
Per share fully diluted earnings *	<u>\$0.747</u>	<u>\$0.575</u>	<u>\$1.858</u>	<u>\$2.037</u>
Dilutive effect	3.4%	1.7%	2.0%	3.1%

\* Rounded

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



THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM  
 CONDENSED CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 1994 AND CONSOLIDATED  
 STATEMENT OF INCOME FOR THE NINE MONTHS THEN ENDED AND IS QUALIFIED IN ITS  
 ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

9-MOS		
	DEC-31-1994	
	SEP-30-1994	
		1,799
		0
		65,024
		0
		42,608
	121,035	
		410,788
	229,346	
	313,365	
	67,483	
		91,520
		5,008
	0	
		19,992
		87,235
313,365		
		330,345
	330,345	
		269,562
		307,707
		0
		0
	5,360	
	17,278	
		7,066
10,212		
		0
		0
		0
		10,212
		1.90
		1.86