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 [FEE REQUIRED]
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1994
OR
/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]
FOR THE TRANSITION PERIOD FROM ----------- TO -----------

COMMISSION FILE 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 No.)
Northfield, Illinois	60093
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number including area code: 708-446-7500

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	American Stock Exchange Chicago Stock Exchange
5 1/2% Convertible Preferred Stock, no par value	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, 1995, OF VOTING STOCK HELD BY NONAFFILIATES OF THE REGISTRANT: $111,119,000.*

NUMBER OF SHARES OUTSTANDING OF EACH OF THE ISSUER'S CLASSES OF COMMON STOCK AS OF FEBRUARY 28, 1995:

CLASS	OUTSTANDING AT FEBRUARY 28, 1995
Common Stock, $1 par value	9,964,000 shares

DOCUMENTS INCORPORATED BY REFERENCE

PART OF FORM 10-K	DOCUMENT INCORPORATED
Part I, Item 1	1994 Annual Report to Stockholders
Part II, Items 5-8	1994 Annual Report to Stockholders
Part III, Items 10-12	Proxy Statement dated March 31, 1995

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

PART I

ITEM 1. BUSINESS

Stepan Company and its subsidiaries (the "Company") produce basic 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, toothpaste, cosmetics and other personal care products. Commercial and industrial applications include emulsifiers for agricultural pesticides, 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 February 1990, Stepan Company sold its paper chemical business which reported moderate losses since its purchase in 1985.

In the first quarter of 1990, Stepan Company capitalized $1.6 million of loans to Stepan Mexico, increasing Stepan Company's ownership from 40% to 98%. Stepan Mexico S.A. de C.V. is a manufacturer of surfactant chemicals.

In 1991, Stepan Company purchased the ACCOSOFT(R) line of fabric softeners from Karlshamns U.S.A., Inc. The Company also purchased from ICI Americas, Inc. the U.S. portion of the sulfonate and sulfonate blend line used in agricultural products and industrial coatings.

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 will manufacture selected surfactants and market 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., will manufacture selected surfactants for sale in the Philippines and Asia/Pacific markets commencing in 1996.

MARKETING AND COMPETITION

Principal markets for all products are manufacturers of cleaning or washing compounds (including detergents, shampoos, toothpaste and household cleaners), paints, cosmetics, beverages, agricultural pesticides 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 sale of commodity chemicals having identical performance characteristics. The Company is one of the largest merchant producers 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 also faces some 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 a "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 1995, the Company has commitments from suppliers to cover its forecasted requirements and is not substantially dependent upon any one supplier.

RESEARCH AND DEVELOPMENT

The Company maintains an active research and development program to assist in the discovery and commercialization of new knowledge with the intent that such effort will be useful in developing a new product or in bringing about a significant improvement to an existing product or process. Total expenses for research and development during 1994, 1993 and 1992 were $12,281,000, $12,613,000 and $11,320,000, respectively. During 1994 and 1993, the research and development staff consisted of 170 and 162 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 $4,960,000 during 1994. Such capital expenditures in 1995 should approximate $8,850,000. These expenditures represented approximately 11% of the Company's capital expenditures in 1994 and are expected to be 21% of such expenditures in 1995. 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, 1994 and 1993, the Company employed worldwide 1,265 and 1,302 persons, respectively.

FOREIGN OPERATIONS

See Note 13, Geographic Data, on page 29 of the Company's 1994 Annual Report to Stockholders.

PRODUCT GROUPS

The manufacture of basic 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, 1994, were:

	SURFACTANTS	POLYMERS	SPECIALTY PRODUCTS
1994	74%	18%	8%
1993	74%	18%	8%
1992	73%	20%	7%

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 three wholly owned subsidiaries: one in France, Canada and Mexico. 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 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

As previously reported in the Company's Form 10-K/A for the year ended December 31, 1992, the Company was named as a potentially responsible party ("PRP") for its Maywood, New Jersey Property and property adjacent thereto ("sites"). The Company now believes that the Feasibility Study, which sets forth alternative recommendations as to remediation at the sites, and the Company's Maywood, New Jersey site, will be published for public comment in the second calendar quarter of 1995. Following the public comment period, the United States Environmental Protection Agency ("USEPA") will publish the Record of Decision, which will set the remediation program to be followed at the sites, and the Company's Maywood, New Jersey property. While it is probable that the Company will incur some clean-up costs, until publication of the Record of Decision, the Company cannot estimate what its future liability, if any, would be.

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

As reported previously in the Company's Form 10-K/A for the year ended December 31, 1992, the Company was named as a PRP at the D'Imperio site located in Hamilton Township, New Jersey, as well as being named as a party defendant in United States of America v. Jerome Lightman, et. al. (92 CV 4710 [JBS]), a cost recovery action. The offer to settle, as previously reported, was not accepted because of the inability of the PRPs at this site to resolve other outstanding issues. Consequently, the Company and the other twenty PRPs are engaged in litigation regarding each party's share of costs at this site.

As reported previously in the Company's Form 10-K/A for the year ended December 31, 1992, the Company and its wholly-owned Mexican subsidiary were named as party defendants in an action brought in Brownsville, Texas entitled Alvear et. al. v. Leonard Electronics Products Co. et. al. Discovery has continued to proceed in this case, and based on current time schedules, the case is scheduled for trial commencing August 15, 1995. The Company cannot estimate what its liability, if any, will be with regard to this case.

As reported previously in the Company's Form 10-K/A for the year ended December 31, 1992, the Company was named as a PRP at the American Chemical Services Site located in Griffith, Indiana, and was named as a party defendant in an action entitled In the Matter of American Chemical Services Superfund Site. In December 1994, the Company settled its alleged obligations under this case on a de minimis basis. The settlement was fully reserved for and did not have a material impact upon the financial condition of the Company.

As reported previously in the Company's Form 10-K/A for the year ended December 31, 1992, the Company was named as a third party defendant in an action entitled General Electric Company v. Buzby Brothers Materials Corporation et. al. (No. 87-4263 [JHR]). Subject to court approval, the Company settled its alleged liability in this action under a court-sealed settlement in January 1995. The settlement was fully reserved for and did not have a material impact upon the financial condition of the Company.

As previously reported in the Company's Form 10-K/A for the year ended December 31, 1992, the Company was a named PRP at the Ewan site, Shamong Township, New Jersey. The USEPA has combined operable unit 1 and operable unit 2 (drum removal and liquid/soil removal) into one operating unit. The contractor hired by the PRP group has commenced remediation at this site.

As previously reported in the Company's 1992 Forms 10-K and 10-K/A and the Company's Form 10-Qs for the quarters ended March 31 1994, June 30, 1994 and September 30, 1994, the Company was named as a PRP at other sites located primarily in the Eastern part of the United States of America. While named as a PRP at these sites, the Company has contested its involvement at these sites. To date, the Company has received no further communication regarding these sites, or the Company's involvement at these sites.

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, 1994.

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 January 1, 1995, James A. Hartlage, who was formerly Senior Vice President--Technology as of February, 1992, was appointed Senior Vice President--Technology and Operations. Earl H. Wagener, formerly Vice President--Product Development, was appointed Vice President--Research and Development.

As of October 29, 1992, pursuant to Section 3(b) Rule 3b-7 of the Securities Exchange Act of 1934, Mark S. Barg is deemed an executive officer of the Company. Mark Barg has served in the capacity of Vice President--Logistics for the last five years. Effective April 28, 1992, Charles W. Given, formerly Vice President--Marketing, was appointed Vice President and General Manager--Surfactants. Ronald L. Siemon, formerly Vice President--Polyurethanes, was appointed Vice President and General Manager--Polymers.

Effective January 1, 1992, Walter J. Klein, formerly the Vice President and Corporate Controller, was appointed Vice President--Finance. Charles P. Riley, Jr., who previously held the position of Vice President--Manufacturing and Engineering, assumed the position of Vice President--Administration and Regulatory Affairs. Mickey Mirghanbari, who previously served in the capacity of Vice President for Plant

Operations, assumed the position of Vice President--Manufacturing and Engineering. 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, 1995, and certain other information are as follows:

NAME	AGE	TITLE	YEAR FIRST ELECTED OFFICER
F. Quinn Stepan........................	57	Chairman, President and Chief Executive Officer	1967
James A. Hartlage......................	57	Senior Vice President--Technology and Operations	1980
Charles W. Given.......................	58	Vice President and General Manager--Surfactants	1992
Ronald L. Siemon.......................	57	Vice President and General Manager--Polymers	1992
Charles P. Riley, Jr.	62	Vice President--Administration and Regulatory Affairs	1980
Jeffrey W. Bartlett....................	51	Vice President, General Counsel and Corporate Secretary	1983
Walter J. Klein........................	48	Vice President--Finance	1985
Mickey Mirghanbari.....................	57	Vice President--Manufacturing and Engineering	1992
Earl H. Wagener........................	54	Vice President--Research and Development	1995
Mark S. Barg...........................	53	Vice President--Logistics	Not applicable

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 American Stock Exchange and the Chicago Stock Exchange. See page 30 of the Company's 1994 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 Chicago Stock Exchange. See Note 6 on page 27 of the Company's 1994 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, 1995, there were 1,784 holders of common stock of the Company.

(c) See page 30 of the Company's 1994 Annual Report to Stockholders for dividend information which is incorporated by reference herein. Also see Note 3 on page 25 of the Company's 1994 Annual Report to Stockholders which sets forth the restrictive covenants covering dividends.

ITEM 6. SELECTED FINANCIAL DATA

See pages 30 and 31 of the Company's 1994 Annual Report to Stockholders for a ten 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 1994 Annual Report to Stockholders which is incorporated by reference herein.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See pages 19 through 29 of the Company's 1994 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 31 of the Company's 1994 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 31, 1995, 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 page 7 of the Company's Proxy Statement dated March 31, 1995, for the Annual Meeting of Stockholders which is 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 31, 1995, 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 November 11, 1994, regarding actions by the Board of Directors to increase the quarterly dividend, to effect a two-for-one stock split on the Company's common stock and to approve modifications to the Company's Bylaws regarding stockholders' rights to call special meetings and the related written notification requirements.

(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 and
Corporate Secretary

March 24, 1995

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 24, 1995
JAMES J. GAVIN, JR. James J. Gavin, Jr.	Director	March 24, 1995
THOMAS F. GROJEAN Thomas F. Grojean	Director	March 24, 1995
JAMES A. HARTLAGE James A. Hartlage	Senior Vice President--Technology and Operations and Director	March 24, 1995
WALTER J. KLEIN Walter J. Klein	Vice President--Finance, Principal Financial and Accounting Officer	March 24, 1995
PAUL H. STEPAN Paul H. Stepan	Director	March 24, 1995
ROBERT D. CADIEUX Robert D. Cadieux	Director	March 24, 1995

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 24, 1995

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, 1994, has been filed as an exhibit to this Annual Report on Form 10-K. Pages 19 through 29 of such Annual Report to Stockholders contain the Consolidated Balance Sheets as of December 31, 1994 and 1993, the Consolidated Statements of Income, Stockholders' Equity and Cash Flows and Notes to Consolidated Financial Statements for the three years ended December 31, 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 9 and 10 of this 10-K.

The individual financial statements of the Registrant have been omitted because the Registrant is primarily an operating company and all subsidiaries included in the consolidated financial statements being filed, in the aggregate, do not have minority equity interests and/or indebtedness to any person other than the parent in amounts which together exceed 5% of the total consolidated assets at the date of the latest balance sheet filed.

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, 1994
AS REQUIRED TO COMPLY WITH REGULATION S-X

SCHEDULE II--ALLOWANCE FOR DOUBTFUL ACCOUNTS:

An analysis of the allowance for doubtful accounts for the three years ended December 31, 1994, is summarized as follows:
(IN THOUSANDS)

	1994	1993	1992
Balance, Beginning of Year	$1,739	$1,444	$1,592
Provision charged to income	291	621	119
Accounts written off, net of recoveries	(445)	(326)	(267)
Balance, End of Year	$1,585	$1,739	$1,444

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 10, 1995. 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 10, 1995

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)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).
(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 1994 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, 1994.
(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.

EXHIBIT (4)m(2)

May 31, 1994

Stepan Company
Edens and Winnetka Road
Northfield, Illinois 60093

Attention: Mr. Walter J. Klein

Re: Amendment No. 4 to Amended and Restated Revolving Credit and Term Loan Agreement dated as of February 20, 1990

Ladies and Gentlemen:

We make reference to that certain Amended and Restated Revolving Credit and Term Loan Agreement dated as of February 20, 1990, as amended (the "Agreement") among Stepan Company (the "Company"), certain banks parties thereto (collectively, the "Banks") and The First National Bank of Chicago, as Agent. Capitalized terms used and not otherwise herein defined shall have the meanings attributed to them in the Agreement.

The Company has requested that the Agreement be amended in order to (i) extend the Revolving Credit Termination Date, (ii) amend the applicable margins and (iii) amend certain other provisions of the Agreement as more fully set forth hereinafter. This is to advise the Company that the Banks hereby consent to such amendments, subject to the terms and conditions set forth herein. Accordingly, the Company and the Banks hereby agree to amend the Agreement as follows:

1. The definition of "Revolving Credit Termination Date" set forth in Article I of the Agreement is restated in its entirety as follows:

'"Revolving Credit Termination Date" means May 31, 1998.'

2. Clause (ii) of the definition of "Eurodollar Rate" set forth in Article I of the Agreement is restated in its entirety as follows:

"(ii) .55% per annum through the Revolving Credit Termination Date and .85% per annum thereafter."

3. The Agreement provides for Fixed CD Rate pricing as set forth in the definition "Fixed CD Rate" and thereinafter. The Company and the Banks hereby agree that such pricing shall not be available after the Effective Date (as hereinafter defined). From and after the Effective Date, all references in the Agreement to Fixed CD Rate and Fixed CD Rate pricing options shall be deemed deleted.

The amendments contained herein shall become effective as of May 31, 1994 (the "Effective Date") upon receipt by the Agent of the following:

(a) Copies of this Amendment duly executed by the parties hereto; and

(b) Copies, certified by the Secretary or Assistant Secretary of the Company, of its Board of Directors' resolutions authorizing the execution of this Amendment.

The Company represents and warrants to the Banks that, as of the Effective Date, (i) the representations and warranties set forth in Article V of the Agreement are true and correct and (ii) no Default or Unmatured Default exists.

It is understood and agreed that all of the terms, conditions and covenants of the Agreement, except as specifically amended herein, shall remain binding upon the Borrower in all respects.

IN WITNESS WHEREOF, the Company, the Banks and the Agent have executed this Amendment as of the date first above written.

STEPAN COMPANY
By: Walter J. Klein

Title: Vice President - Finance
Edens and Winnetka Road
Northfield, Illinois 60093
Attention: Treasury Department

THE FIRST NATIONAL BANK OF CHICAGO,
Individually and as Agent
By: Karen F. Kizer

Title: Senior Vice President
One First National Plaza
Chicago, Illinois 60670

HARRIS TRUST AND SAVINGS BANK
By: R. Michael Newton

Title: Vice President
111 West Monroe Street
Chicago, Illinois 60690
Attention: R. Michael Newton

ABN-AMRO Bank N.V.
Chicago Branch

By: SHERI F. KEMPEL

Title: Group Vice President
        135 S. LaSalle Street
        Suite 425
        Chicago, Illinois 60603
Attention: Sheri F. Kempel

By: JOHN ELLENWOOD

Title: Vice President

EXHIBIT (11)

STEPAN COMPANY

STATEMENT RE COMPUTATION OF PER SHARE EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 1994 AND 1993
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	1994	1993(B)
COMPUTATION OF PER SHARE EARNINGS		
Net income	$13,845	$10,776
Deduct dividends on preferred stock	1,076	1,097
Income applicable to common stock	$12,769	$ 9,679
Weighted average number of shares outstanding	9,924	9,894
Per share earnings*	$ 1.287	$ .978
COMPUTATION OF PER SHARE PRIMARY EARNINGS		
Income applicable to common stock	$12,769	$ 9,679
Weighted average number of shares outstanding	9,924	9,894
Add net shares issuable from assumed exercise of options (under treasury stock method)	142	206
Shares applicable to primary earnings	10,066	10,100
Per share primary earnings*	$ 1.269	$ .958
Dilutive effect	1.4%	2.0%
COMPUTATION OF PER SHARE FULLY DILUTED EARNINGS		
Net income	$13,845	$ 9,679(A)
Weighted average number of shares outstanding	9,924	9,894
Add net shares issuable from assumed exercise of options (under treasury stock method)	154	206
Add weighted average shares issuable from assumed conversion of convertible preferred stock	894	--(A)
Shares applicable to fully diluted earnings	10,972	10,100
Per share fully diluted earnings*	$ 1.262	$ .958
Dilutive effect	1.9%	2.0%

(A) For 1993, the assumed conversion of convertible preferred stock would have been antidilutive. Accordingly, the dividends and shares issuable from assumed conversion have been excluded pursuant to APB No. 15.

(B) All share and per share data have been restated for the two-for-one common stock split effective December 15, 1994.

* Rounded

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

EXHIBIT (13)

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

RESULTS OF OPERATIONS

1994 COMPARED WITH 1993

Sales for 1994 grew one percent to a record $444 million despite a one percent decline in sales volume. Sales by product group were:

(Dollars in Thousands)	1994	1993	Percent Change
Surfactants	$329,186	$324,809	+1
Polymers	78,778	79,071	--
Specialty products	35,984	34,945	+3
Total	$443,948	$438,825	+1

Surfactants are a principal ingredient in consumer and industrial cleaning products such as detergents, shampoos, lotions, toothpaste and cosmetics. Other applications include lubricating ingredients and emulsifiers for spreading of insecticides and herbicides. Surfactant sales rose one percent despite a four percent decline in sales volume. The moderate growth in sales was primarily contributed by foreign subsidiaries, as domestic sales were essentially flat between years. Domestic volume, representing 83 percent of total surfactant sales volume, was down seven percent from the prior year as a result of product reformulation by large national customers. Partially offsetting this was a significant volume growth in the broad commercial customer base. Sales of foreign subsidiaries, representing 17 percent of surfactant sales volume, grew six percent as a result of a strong volume gain. Mexico contributed a 46 percent year-to-year volume increase, followed by a 13 percent and a six percent increase from Canada and Europe, respectively. The weakened Canadian dollar has negatively affected the subsidiary's reported sales growth. The continued competitive pressure on prices in Europe has erased the revenue growth fueled by stronger sales volume and the strengthening French franc.

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. Polymer sales were essentially unchanged from a year ago, although sales volume rose eight percent. Phthalic anhydride, which represents 57 percent of polymer volume, reported a 16 percent increase in sales due to a 13 percent increase in volume and higher selling prices. Higher selling prices were driven by improved market conditions and higher raw material costs. The increase in phthalic anhydride volume was the result of strong domestic demand, lower levels of competing foreign imports and high production levels attributable to refurbishments made to our manufacturing facility. Polyurethane polyols, which represent 38 percent of total polymer volume, posted 15 percent sales growth due entirely to improved volume. Polyurethane systems sales fell 44 percent as volume dropped 45 percent due to delays in the roll-out of new products with more favorable environmental characteristics.

Specialty products include flavors, lubricant additives, oil field chemicals and emulsifiers and solubilizers used in the food and pharmaceutical industry. Specialty products revenues grew three percent with most of the improvement coming from higher volume.

Gross profit in 1994 was $81.1 million, or 18.3 percent of net sales, an increase from $80.0 million, or 18.2 percent of net sales in 1993. Surfactant gross profit was $61.3 million for 1994, a decrease of three percent from 1993. Domestic surfactants were down $3.5 million, or seven percent, as a result of the reduced sales to larger national customers. Foreign operations were up $1.9 million as Mexico and Canada continued to post stronger sales over prior years. Negatively impacting the result was Stepan Europe which continued to face increasingly competitive price pressure in a recovering European economy. Polymer gross profit rose $3.4 million to $13.1 million for 1994 representing a 35 percent increase from 1993. Phthalic anhydride contributed most of the increased polymer gross profit, as a result of significantly improved margins and volume. Insurance recoveries of $1.1 million related to 1993 production outages also contributed to the improved margin. Despite the significant sales drop in polyurethane systems, gross profit only declined 26 percent due primarily to the development of lower cost formulations. While polyurethane polyols posted higher sales and volume, increased manufacturing expenses, raw material costs and export freight costs more than offset the volume gains. Specialty products gross profit fell $.7 million to $6.7 million for 1994 representing a nine percent decline from 1993. Despite the increased sales, the decline in gross profit was largely attributable to reduced royalty income compared to a year earlier.

Average raw material costs climbed six percent during 1994 and are expected to rise modestly during 1995 as the economy continues to grow. Labor costs increased at a modest rate reflecting the recent low levels of inflation which are expected to continue in the near term. Depreciation expense increased to $27.0 million in 1994 from $25.7 million in 1993 as a result of bringing into service capacity expansion projects in recent years, as well as continuing capital spending for plant improvements.

Operating income, pre-tax income before net interest expense, was $29.6 million in 1994, an 8.4 percent increase from 1993. Operating expenses declined three percent reflecting lower administrative expenses in 1994. Administrative expenses decreased $1.3 million, or seven percent due primarily to $3.1 million of insurance recoveries relating to legal costs previously incurred in defending environmental cases against the company. See Note 12 of the Notes to Consolidated Financial Statements. Net of these favorable recoveries, provision for legal and environmental costs was $.7 million in 1994 compared with $2.2 million recorded in 1993. Marketing expenses increased a modest one percent which was essentially offset by a decrease in research and product development expenses. Excluding the insurance recoveries, operating expenses for 1994 increased $1.8 million, or a moderate three percent. Continued insurance reimbursement of ongoing environmental legal defense costs is expected to minimize the company's share of future defense costs. Other cost containment efforts, including a voluntary early retirement program offered in 1994, are expected to keep 1995 operating expense increases to a modest level.

Net income in 1994 benefited from a substantially lower tax rate than 1993. The effective tax rate was 38.5 percent in 1994 compared to 45.1 percent in 1993. The 1993 tax rate was unusually high because of a U.S. tax rate hike and the resulting upward restatement of deferred tax liabilities. A recognition in the current year of tax benefits on loss carryforwards of foreign subsidiaries also contributed to the lower tax provision. See Note 5 of the Notes to the Consolidated Financial Statements for a reconciliation of the statutory to the effective tax rate.

Net income for 1994 rose 28 percent to $13.8 million, or $1.29 per share, compared to $10.8 million, or $.98 per share in 1993. As a result of the two-for-one common stock split on December 15, 1994, earnings per share for 1993 and prior have been restated.

1993 COMPARED WITH 1992

Sales for 1993 grew one percent to a record $439 million. The increase was the result of a one percent increase in sales volume. Sales by product group were:

(Dollars in Thousands)	1993	1992	Percent Change
Surfactants	$324,809	$317,522	+2
Polymers	79,071	87,060	-9
Specialty products	34,945	31,182	+12
Total	$438,825	$435,764	+1

Surfactant sales volume rose two percent. Domestic volume represented 87 percent of total surfactant sales volume and grew by two percent over 1992. Sales of foreign subsidiaries representing 13 percent of surfactant sales volume declined by two percent. Mexico's sales decreased as a result of a 13 percent drop in volume which was largely offset by increased sales volume in Canada. Europe's sales decreased two percent, despite higher volume as a result of a six percent decline in the value of the French franc and increased competitive pressure on prices. The weaker Canadian dollar also negatively affected the foreign subsidiaries' revenue growth.

Polymer sales declined due to a nine percent decrease in volume. Phthalic anhydride, which represents 54 percent of polymer volume, experienced a 17 percent decrease in sales due primarily to increased competition from imports which forced volumes and selling prices down. Polyurethane polyols, which represent 35 percent of total polymer volume, experienced an eight percent decline in volume due to lower export business. Polyurethane systems sales increased seven percent as a result of higher volume and improved selling prices.

Specialty products revenues grew 12 percent with most of the improvement coming from higher volume. Average selling prices were essentially unchanged.

Gross profit in 1993 was $80.0 million, or 18.2 percent of net sales, a decrease from $81.8 million, or 18.8 percent of net sales in 1992. Surfactants gross profit was $63.0 million for 1993, a decrease of one percent from 1992. Domestic surfactants were down $.3 million, or one percent, as a result of a slight decrease in gross profit margins. Foreign operations were down $.2 million as Stepan Europe continued to face increased competitive pressure in a recessionary European economy. Canada and Mexico both showed improvement over 1992. Polymers gross profit dropped by $4.7 million to $9.7 million for 1993 representing a 33 percent decrease from 1992. Phthalic anhydride accounted for most of the decreased polymer gross profit showing significantly reduced gross profit margins as a result of increased competition from imports in the marketplace. Higher repair and maintenance expenses in the production of phthalic anhydride also contributed to the lower margins. Polyurethane polyols gross profit also decreased despite higher margins as a result of lower volumes. Polyurethane systems gross profit increased on improved margins. Specialty products gross profit grew by $3.4 million to $7.4 million for 1993 representing an 85 percent increase over 1992. Contributing to this performance were higher selling prices for lubricant additives, higher volumes for oil field chemicals and improved margins for food ingredients.

Raw material costs declined slightly during 1993. Labor costs increased at a modest rate reflecting the recent low levels of inflation. Depreciation expense increased to $25.7 million in 1993 from $22.4 million in 1992 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, pre-tax income before net interest expense, was $27.3 million in 1993, a 13.8 percent increase from 1992. Operating income in 1992 included a $6.5 million charge relating to environmental expenses and the write down of the company's investment in Mexico. See Note 11 of the Notes to the Consolidated Financial Statements. Excluding the environmental and restructuring charge in 1992, operating expenses for 1993 increased $1.5 million or three percent. Administrative expenses decreased $1.7 million or nine percent primarily due to decreased legal costs and lower office space costs as 1992 was unusually high due to the consolidating of personnel into a newly leased corporate facility. Marketing expenses increased four percent largely due to increased travel by sales personnel and a higher bad debt provision. Research and development costs increased by 17 percent due to planned staffing increases as well as greater travel requirements of research personnel. Cost containment efforts undertaken in prior years have resulted in a moderate increase in operating expenses in 1993.

The effective tax rate was 45.1 percent in 1993 compared to 40.0 percent in 1992 on income before the effects of accounting changes. The increase in the tax provision was attributable to the higher corporate tax rate which resulted from the Revenue Reconciliation Act of 1993. Previously deferred tax liabilities were restated to reflect the higher tax rate resulting in an addition to the 1993 provision. See Note 5 of the Notes to the Consolidated Financial Statements for a reconciliation of the statutory to the effective tax rate.

Net income for 1993 increased three percent to $10.8 million, or $.98 per share, compared to 1992 net income of $10.4 million, or $.95 per share before accounting changes. The 1992 net income reflected the retroactive adoption of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" and a change from the deferred method to the flow-through method of accounting for investment tax credits. The cumulative effect of these changes was a favorable $5.4 million, or $.51 per share in 1992. See Note 5 of the Notes to the Consolidated Financial Statements for a further explanation of the accounting changes. Net income for 1992 was $15.8 million, or $1.46 per share.

FOURTH QUARTER, 1994 COMPARED WITH 1993

For the quarter ended December 31, 1994, the company announced net income of $3.6 million, or $.34 per share, compared to a net loss of $.4 million, or $.08 per share in the fourth quarter of 1993 (as restated for the two-for-one common stock split on December 15, 1994). Net sales for the quarter increased 11 percent to $113.6 million from $102.5 million recorded in 1993. Gross profit was $20.3 million, up 32 percent in the fourth quarter compared to the same quarter of 1993. Polymers made the largest contribution as a result of considerably higher phthalic anhydride sales volume and margins. Surfactants recorded higher quarterly gross profit due to increased domestic surfactant sales and higher foreign sales volume, most notably in Mexico. Specialty products also posted higher gross profit. Total operating expenses, including net interest expense, declined seven percent in the fourth quarter compared with the same quarter of 1993. The decline was favorably impacted by insurance recoveries of $1.1 million related to previously incurred legal and environmental costs.

LIQUIDITY AND FINANCIAL CONDITION

Cash provided by operating activities totaled $51.0 million during 1994, up by $15.7 million compared to $35.3 million for 1993. Contributing heavily to the 1994 increase was $12.9 million in customer prepayments under long-term contracts. During 1994, working capital items comprised a $5.7 million use of cash compared to $6.1 million during 1993. Net income, adjusted for non-cash items, increased by $2.4 million from year to year.

Capital expenditures for 1994 totaled $42.9 million, up by $17.5 million from $25.4 million during 1993 when spending was at a five-year low. The company's 1995 capital spending program calls for approximately $42 million in expenditures, including $38 million at domestic facilities.

Total debt increased by $.7 million during 1994, closing the year at $97.8 million. From year to year, domestic borrowings increased by $2.4 million while debt of foreign subsidiaries decreased by $1.7 million. During 1994, the company repaid a $1.0 million note to its Colombian joint venture. The year-end ratio of long-term debt to long-term debt plus shareholder's equity was 44.7 percent for 1994, compared to 46.2 percent for 1993 and 47.6 percent for 1992.

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. During 1994, the company negotiated an extension of the revolving portion of this loan facility to May 31, 1998. See Note 3 of the Notes to the Consolidated Financial Statements for a discussion of the terms of this agreement. The company also meets domestic short-term liquidity requirements through uncommitted bank lines of credit and bankers' acceptances.

The company's foreign subsidiaries maintain committed and uncommitted bank lines of credit in their respective countries to meet working capital requirements as well as to fund capital expenditure programs.

The company anticipates that cash from operations and from available credit facilities will be sufficient to meet anticipated capital expenditure programs, dividend requirements and other planned financial commitments for both its domestic operations and its foreign subsidiaries during 1995 and 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 1994, company expenditures for capital projects related to the environment were $5.0 million and should approximate $8.9 million for 1995. 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 environmental protection facilities for ongoing operations were approximately $7.1 million for 1994 compared to $8.0 million for 1993. 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 clean-up 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. The company has estimated a range of possible environmental and legal losses from $5.5 million to $21.6 million at December 31, 1994, compared to $4.4 million to $22.8 million at December 31, 1993. At December 31, 1994, the company's reserve was $6.9 million for legal and environmental matters compared to $7.2 million at December 31, 1993. During 1994, expenditures related to legal and environmental matters approximated $4.3 million compared to $4.5 million expended in 1993. During 1994, the company recovered $3.1 million from insurers primarily for reimbursement of previously incurred environmental defense costs. The recoveries are recorded as a reduction to the current year's legal and environmental expense. It is anticipated that the company will receive continued insurance reimbursement of ongoing environmental legal defense costs. While it is difficult to forecast the expenditures for 1995, the company believes that the $6.9 million reserve balance at December 31, 1994 is more likely to 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 1994 Form 10-K Annual Report and in other filings of the company with the Securities and Exchange Commission, which filings are available upon request from the company.

In addition, reference should be made to the Ten Year Summary on pages 30 and 31.

REPORT OF MANAGEMENT

MANAGEMENT REPORT ON FINANCIAL STATEMENTS

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

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

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

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

Walter J. Klein
Vice President-Finance

February 10, 1995

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, 1994 and 1993, and the related consolidated statements of income, cash flows and stockholders' equity, for each of the three years in the period ended December 31, 1994. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also 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, 1994 and 1993, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1994, in conformity with generally accepted accounting principles.

As discussed in Notes 1 and 5 to the consolidated financial statements, effective January 1, 1992, Stepan Company changed its methods of accounting for investment tax credits and for income taxes.

Arthur Andersen LLP
Chicago, Illinois,
February 10, 1995

CONSOLIDATED BALANCE SHEETS
December 31, 1994 and 1993

(Dollars in Thousands)	1994	1993
Assets		
Current Assets:		
Cash and cash equivalents	$ 2,452	$ 1,515
Receivables, less allowances of $1,585 in 1994 and $1,739 in 1993	70,385	57,250
Inventories (Note 2)	45,464	48,918
Deferred income taxes (Note 5)	8,218	7,498
Other current assets	2,852	3,979
Total current assets	129,371	119,160
Property, Plant and Equipment:		
Land	4,576	4,533
Buildings and improvements	52,558	50,143
Machinery and equipment	343,629	313,010
Construction in progress	16,891	11,142
	417,654	378,828
Less accumulated depreciation	233,997	208,558
Property, plant and equipment, net	183,657	170,270
Other Assets	11,920	11,058
Total assets	$324,948	$300,488
Liabilities and Stockholders' Equity		
Current Liabilities:		
Current maturities of long-term debt (Note 3)	$ 8,043	$ 7,447
Accounts payable	37,904	34,832
Accrued liabilities (Note 9)	34,509	28,312
Total current liabilities	80,456	70,591
Deferred Income Taxes (Note 5)	32,976	36,020
Long-term Debt, less current maturities (Note 3)	89,795	89,660
Deferred Revenue (Note 10)	10,419	--
Stockholders' Equity (Note 6):		
5 1/2 percent convertible preferred stock, cumulative, voting, without par value; authorized 2,000,000 shares; issued 799,196 shares in 1994 and 799,684 shares in 1993	19,980	19,992
Common stock, $1 par value; authorized 15,000,000 shares; issued 10,028,544 shares in 1994 and 10,226,048 shares in 1993 (a)	10,029	5,113
Additional paid-in capital	3,983	3,781
Cumulative translation adjustments	(3,491)	(2,058)
Retained earnings	82,445	82,475
	112,946	109,303
Less: Treasury stock, at cost	1,644	4,863
Deferred ESOP compensation (Note 7)	--	223
Stockholders' equity	111,302	104,217
Total liabilities and stockholders' equity	$324,948	$300,488

(a) Restated for the two-for-one common stock split effective December 15, 1994.

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, 1994, 1993 and 1992

(Dollars in Thousands, except per share amounts)	1994	1993	1992
Net Sales	$443,948	$438,825	$435,764
Cost and Expenses:			
Cost of sales	362,848	358,790	353,950
Marketing	16,972	16,738	16,061
Administrative	17,082	18,378	20,110
Research, development and technical services (Note 1)	17,398	17,669	15,134
Interest, net (Note 3)	7,136	7,626	6,644
Environmental and restructuring charges (Note 11)	--	--	6,500
	421,436	419,201	418,399
Income Before Provision for Income Taxes and Cumulative Effect of Accounting Changes	22,512	19,624	17,365
Provision for Income Taxes (Note 5)	8,667	8,848	6,942
Income Before Cumulative Effect of Accounting Changes	13,845	10,776	10,423
Cumulative Effect of Accounting Changes (Notes 1 and 5)	--	--	5,406
Net Income	$ 13,845	$ 10,776	$ 15,829
Primary Earnings Per Share:			
Income before cumulative effect of accounting changes	1.29	.98	.95
Cumulative effect of accounting changes (Notes 1 and 5)	--	--	.51
Net Income per Common Share	$ 1.29	$ .98	$ 1.46
Fully Diluted Earnings Per Share:			
Income before cumulative effect of accounting changes	1.26	.96	.93
Cumulative effect of accounting changes (Notes 1 and 5)	--	--	.49
Net Income per Common Share	$ 1.26	$ .96	$ 1.42
Average Common Shares Outstanding (Note 1)	9,924	9,894	10,572

All share and per share data have been restated for the two-for-one common stock split effective December 15, 1994.

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

(COMBINED SALES chart appears here)

(1994 SALES DOLLAR DISTRIBUTION chart appears here)

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 1994, 1993 and 1992

(Dollars in Thousands)	1994	1993	1992
Net Cash Flow from Operating Activities			
Net income	$ 13,845	$ 10,776	$ 15,829
Depreciation and amortization	28,935	27,679	23,914
Cumulative effect of accounting changes (Notes 1 and 5)	--	--	(5,406)
Provision for environmental and restructuring charges (Note 11)	--	--	6,500
Deferred income taxes	410	2,735	2,409
Prepaid pension cost (Note 8)	(190)	(567)	(645)
Other non-cash items	817	830	271
Deferred revenue (Note 10)	12,883	--	--
Changes in Working Capital:			
Receivables, net	(13,135)	(220)	(2,985)
Inventories	3,454	(1,140)	(3,823)
Accounts payable and accrued liabilities	4,106	(4,788)	3,000
Other	(96)	1	(250)
Net Cash Provided by Operating Activities	51,029	35,306	38,814
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(42,884)	(25,435)	(34,440)
Investment in joint ventures (Note 1)	(2,314)	(1,422)	--
Other non-current assets	(711)	(963)	(1,960)
Net Cash Used for Investing Activities	(45,909)	(27,820)	(36,400)
Cash Flows from Financing and Other Related Activities			
Revolving debt and notes payable to banks, net	13,313	(20,631)	11,129
Other debt borrowings	--	30,000	--
Other debt repayments	(11,455)	(12,633)	(6,556)
Purchases of treasury stock, net	(327)	(244)	(2,034)
Dividends paid	(5,294)	(5,105)	(4,172)
Other non-cash items	(420)	(273)	(141)
Net Cash Used for Financing and Other Related Activities	(4,183)	(8,886)	(1,774)
Net Increase (Decrease) in Cash and Cash Equivalents	937	(1,400)	640
Cash and Cash Equivalents at Beginning of Year	1,515	2,915	2,275
Cash and Cash Equivalents at End of Year	$ 2,452	$ 1,515	$ 2,915
Supplemental Cash Flow Information			
Cash payments of income taxes, net of refunds	$ 8,554	$ 6,327	$ 6,568
Cash payments of interest	$ 8,536	$ 8,002	$ 8,289

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

(CAPITAL SPENDING chart appears here)

(EQUITY PER SHARE chart appears here)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the years ended December 31, 1994, 1993 and 1992

(Dollars in Thousands)	Convertible Preferred Stock	Common Stock	Additional Paid-in Capital	Treasury Stock	Cumulative Translation Adjustments	Deferred ESOP Compensation	Retained Earnings
Balance, January 1, 1992	$ --	$ 5,551	$ 3,565	$ (2,585)	$ 385	$ (667)	$84,617
Sale of 160,132 shares under stock option plan	--	80	949	--	--	--	--
Purchase of 104,846 shares of common treasury stock, net of sales	--	--	49	(2,034)	--	--	--
Issuance of preferred stock in exchange and retirement of 1,059,602 shares of common stock (Note 6)	20,000	(530)	(875)	--	--	--	(19,470)
Compensation expense (Note 7)	--	--	--	--	--	222	--
Net income	--	--	--	--	--	--	15,829
Cash dividends paid							
Preferred stock (31.0c per share)	--	--	--	--	--	--	(244)
Common stock (37.0c per share)	--	--	--	--	--	--	(3,928)
Translation adjustments	--	--	--	--	(1,408)	--	--
Balance, December 31, 1992	20,000	5,101	3,688	(4,619)	(1,023)	(445)	76,804
Sale of 23,800 shares under stock option plan	--	12	132	--	--	--	--
Purchase of 44 shares of common and 8,700 shares of preferred treasury stock, net of sales	--	--	93	(244)	--	--	--
Issuance cost of preferred stock	--	--	(140)	--	--	--	--
Conversion of preferred stock to common stock	(8)	--	8	--	--	--	--
Compensation expense (Note 7)	--	--	--	--	--	222	--
Net income	--	--	--	--	--	--	10,776
Cash dividends paid							
Preferred stock ($1.375 per share)	--	--	--	--	--	--	(1,097)
Common stock (40.5c per share)	--	--	--	--	--	--	(4,008)
Translation adjustments	--	--	--	--	(1,035)	--	--
Balance, December 31, 1993	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 (Note 7)	--	--	--	--	--	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 6)	--	5,014	--	--	--	--	(5,014)
Balance, December 31, 1994	$ 19,980	$10,029	$ 3,983	$ (1,644)	$ (3,491)	$ --	$82,445

All share and per share data have been restated for the two-for-one common stock split effective December 15, 1994.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 1994, 1993 and 1992

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

The company's operations consist predominantly of the production and sale of basic 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, toothpaste and household cleaners), paints, cosmetics, beverages, agricultural pesticides and herbicides, plastics, furniture, automotive equipment, insulation and refrigeration.

The company grants credit to its customers who are widely distributed throughout North America and Europe. 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 subsidiary companies. All significant intercompany balances and transactions have been eliminated in consolidation. The equity method of accounting is used for certain 50 percent owned foreign joint venture investments. 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. The financial results of the joint ventures are not material to the consolidated financial statements.

CASH AND CASH EQUIVALENTS

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

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, 1994 and 1993 amounted to 87 percent and 89 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 ($16,468,000, $16,505,000 and $15,335,000 in 1994, 1993 and 1992, 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. 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 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 $12,281,000, $12,613,000 and $11,320,000 in 1994, 1993 and 1992, 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

As discussed in Note 5, in 1992 the company adopted Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes." Under SFAS No. 109, 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

In general, 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.

PER SHARE DATA

Primary earnings per share amounts are computed based on the weighted average number of common shares outstanding, 9,924,000 in 1994, 9,894,000 in 1993 and 10,572,000 in 1992. 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 shareholders. 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 10,972,000 in 1994, 10,100,000 in 1993 and 11,154,000 in 1992, respectively. All share and per share data have been retroactively adjusted for the two-for-one common stock split of December 15, 1994.

RECLASSIFICATIONS

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

2. INVENTORIES

The composition of inventories was as follows:

(Dollars in Thousands)	December 31 1994	1993
Finished products	$ 27,632	$ 27,269
Raw materials	17,832	21,649
Total inventories	$ 45,464	$ 48,918

If the first-in, first-out (FIFO) inventory valuation method had been used, inventories would have been approximately $13,200,000 and $9,700,000 higher than reported at December 31, 1994 and 1993, respectively.

3. DEBT

Debt was composed of the following:

(Dollars in Thousands)	Maturity Dates	December 31 1994	1993
Unsecured promissory notes			
7.22%	1999-2008	$ 30,000	$ 30,000
9.52%	1995-2001	15,000	15,000
10.54%	1995-1997	10,712	17,856
9.70%	1997-2006	10,000	10,000
9.70%	1995-2000	6,000	8,000
9.40%	1995	955	2,860
Unsecured bank debt, interest at 6.92% at December 31, 1994	1998-2001	21,800	7,000
ESOP loan guarantee (Note 7)	--	--	300
Loans of foreign subsidiaries payable in foreign currency	1995-2003	3,371	5,091
Note payable to joint venture interest in Colombia, South America	--	--	1,000
Total debt		97,838	97,107
Less current maturities		8,043	7,447
Long-term debt		$ 89,795	$ 89,660

Unsecured bank debt at December 31, 1994, consists of borrowings under a committed $45,000,000 revolving credit agreement which bears interest at varying rates. 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, 1994 and 1993.

The various loan agreements contain provisions which, among others, require maintenance of certain financial ratios, and place limitations on additional debt, investments and payment of dividends. Unrestricted retained earnings were $36,336,000 and $32,789,000 at December 31, 1994 and 1993, respectively. The company is in compliance with all loan agreements.

Debt at December 31, 1994 matures as follows: $8,043,000 in 1995; $7,027,000 in 1996; $8,190,000 in 1997; $9,746,000 in 1998; $14,614,000 in 1999 and $50,218,000 after 1999.

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

(Dollars in Thousands)	1994	1993	1992
Interest expense	$ 8,428	$ 8,552	$ 8,326
Interest income	(295)	(331)	(150)
	8,133	8,221	8,176
Capitalized interest	(997)	(595)	(1,532)
Interest, net	$ 7,136	$ 7,626	$ 6,644

4. LEASED PROPERTIES

The company leases certain property and equipment (primarily transportation equipment, buildings and computer equipment) under operating leases. Total rental expense was $2,994,000, $2,932,000 and $3,343,000 in 1994, 1993 and 1992, respectively.

Minimum future rental payments under operating leases with terms in excess of one year as of December 31, 1994 are:

(Dollars in Thousands)	Year	Amount
	1995	$ 2,518
	1996	1,843
	1997	1,073
	1998	773
	1999	432
	Subsequent to 1999	1,522
	Total minimum future rental payments	$ 8,161

5. INCOME TAXES

In 1992, the company adopted SFAS No. 109, "Accounting for Income Taxes," which requires the use of the liability method of accounting for income taxes. As a result of adopting SFAS No. 109, the company recognized a cumulative benefit of $4,254,000 ($.40 per primary share and $.38 per fully diluted share), as of January 1, 1992. The benefit was included under the caption "Cumulative Effect of Accounting Changes" in the Consolidated Statements of Income. Prior year financial statements were not restated to reflect the new accounting method. The effect of this new standard on income tax expense (exclusive of the cumulative benefit) for the year ended December 31, 1992, and for each of the quarters in the period then ended, was not material.

In 1992, the company also changed its method of accounting for investment tax credits from the deferred method to the flow-through method. This change resulted in the recognition of a cumulative benefit of $1,152,000 ($.11 per primary share and per fully diluted share) as of January 1, 1992, for credits earned but not recognized under the deferred method used prior to this date. The benefit was included under the caption "Cumulative Effect of Accounting Changes" in the Consolidated Statements of Income. The effect of this change on net income (exclusive of the cumulative benefit) for the year ended December 31, 1992 and for each of the quarters in the period then ended, was not material.

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

TAXES ON INCOME

(Dollars in Thousands)	1994	1993	1992
Federal			
Current	$ 6,732	$ 3,818	$ 2,462
Deferred	(1,524)	1,365	1,023
State			
Current	2,020	1,076	692
Deferred	(646)	239	359
Foreign			
Current	2,299	1,426	1,643
Deferred	(214)	924	763
Total	$ 8,667	$ 8,848	$ 6,942

INCOME BEFORE TAXES AND ACCOUNTING CHANGES

(Dollars in Thousands)	1994	1993	1992
Domestic	$ 15,429	$ 14,493	$ 9,781
Foreign	7,083	5,131	7,584
Total	$ 22,512	$ 19,624	$ 17,365

No federal income taxes have been provided on approximately $20,234,000 of undistributed earnings of the company's foreign subsidiaries. These earnings are expected to be reinvested indefinitely. Such earnings would become taxable upon the sale or liquidation of the foreign subsidiaries or upon the remittance of dividends. 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 such earnings.

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

(Dollars in Thousands)	1994 Amount	1994 %	1993 Amount	1993 %	1992 Amount	1992 %
Income tax provision at statutory tax rate	$ 7,879	35.0	$ 6,731	34.3	$ 5,903	34.0
State taxes on income less applicable federal tax benefit	893	4.0	864	4.4	694	4.0
Deferred tax adjustment for tax rate change	--	--	558	2.8	--	--
Research and development credit	(244)	(1.1)	(55)	(.3)	--	--
Valuation allowance	11	--	319	1.6	390	2.2
Other items	128	.6	431	2.3	(45)	(.2)
Total income tax provision	$ 8,667	38.5	$ 8,848	45.1	$ 6,942	40.0

Pursuant to SFAS No. 109, deferred taxes are determined based on the estimated future tax effects of differences between the financial statement and tax bases of assets and liabilities given the provisions of the enacted tax laws. The net deferred tax liability at December 31 is comprised of the following:

(Dollars in Thousands)	1994	1993
Current deferred income taxes		
Gross assets	$ 8,413	$ 7,740
Gross liabilities	(195)	(242)
Total current deferred tax assets	8,218	7,498
Non-current deferred income taxes		
Gross assets	5,684	2,066
Valuation allowance	(741)	(730)
Gross liabilities	(37,919)	(37,356)
Total non-current deferred tax liabilities	(32,976)	(36,020)
Net deferred tax liability	$(24,758)	$(28,522)

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

(Dollars in Thousands)	1994	1993
Tax over book depreciation	$(30,748)	$(29,608)
Safe Harbor leases	(4,228)	(4,547)
SFAS No. 87 pension accounting	(2,346)	(2,282)
State income tax accrual	1,188	1,437
Deferred revenue	4,837	--
Book reserves deductible in other periods	6,941	7,204
Valuation allowance	(741)	(730)
Other, net	339	4
Net deferred tax liability	$(24,758)	$(28,522)

6. 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.

In 1992, the company acquired 1,059,602 shares of its common stock in exchange for 800,000 shares of its then newly issued preferred stock at an exchange ratio of one share of preferred stock for each 1.3245 shares of common stock. In connection with the exchange transaction, the company recorded $20,000,000 of preferred stock based on the market value of the 1,059,602 shares of common stock acquired. Simultaneously, the company retired these common shares by reducing common stock in the amount of $529,801 (par value) and retained earnings by $19,470,199. Additional paid-in capital was reduced by $875,000, representing the costs related to the issuance of the preferred stock.

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 rate 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 $20.0 million at December 31, 1994 and 1993. 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.

In 1992, the shareholders approved the Stepan Company 1992 Stock Option Plan ("1992 Plan"). The 1992 Plan replaces the 1982 Plan and extends participation to directors who are not employees of the company. 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 and become exercisable on various dates over a ten-year period. The purchase price per share of options currently outstanding ranges from $8.12500 to $18.21875 with option expiration dates ranging from April 28, 1996 to May 1, 2004. The options become exercisable as follows: 662,304 currently exercisable and 464,400 on May 2, 1996.

A summary of option transactions during the two years ended December 31, 1994, follows:

(Dollars in Thousands, except per share amounts)	Shares Available for Grant	Options Outstanding Shares	Price per Share	Aggregate Option Price
Balance, January 1, 1993	1,351,696	742,444	$3.84375 -- 18.21875	$ 9,240
Exercised	--	(23,800)	3.84375 -- 12.09375	(144)
Cancelled	--	(4,400)	18.21875	(80)
Balance, December 31, 1993	1,351,696	714,244	3.84375 -- 18.21875	9,016
Granted	(464,400)	464,400	14.00000	6,502
Exercised	--	(51,940)	3.84375 -- 12.09375	(318)
Balance, December 31, 1994	887,296	1,126,704	$8.12500 -- 18.21875	$ 15,200
Became exercisable in 1994		243,904	$18.21875	$ 4,444
Became exercisable in 1993		70,000	$12.56250	$ 879

At December 31, 1994, treasury stock consists of 20,208 shares of preferred stock and 84,280 shares of common stock. At December 31, 1993, treasury stock consisted of 8,700 shares of preferred stock and 330,058 shares of common stock.

7. DEFERRED ESOP COMPENSATION

In 1985, the company established an Employee Stock Ownership Plan ("ESOP"). Under the Plan, the company makes contributions to a trust for the benefit of eligible employees. The amount of the contribution is discretionary except that it must be sufficient to enable the trust to meet its current obligations.

The trust originally borrowed $2,000,000 to purchase 438,356 common shares for the Plan. The company has guaranteed the loan and is obligated to contribute sufficient cash to the Plan to repay the loan. The loan bears interest at 85 percent of the prime rate which was 6.0 percent at December 31, 1993. The remaining balance of the loan was reported as current maturities of long-term debt in the consolidated balance sheet of the company at December 31, 1993 (Note 3), and a related amount of deferred compensation was reported as a reduction of stockholders' equity. Compensation expense is recognized in equal annual amounts through 1994. As of December 31, 1994, the company had made the last contribution and the loan was repaid. The company currently has no plan for further ESOP contributions.

8. 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, 1994, include $6,300,000 of the company's common stock.

Net 1994, 1993 and 1992 periodic pension cost for the plans consists of the following:

(Dollars in Thousands)	1994	1993	1992
Service cost	$ 1,639	$ 1,251	$ 1,095
Interest cost on projected benefit obligation	2,454	2,228	1,997
Actual return on plan assets	1,190	(3,222)	(3,372)
Net amortization and deferral	(5,449)	(824)	(365)
Net prepaid pension cost	$ (166)	$ (567)	$ (645)

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)	1994	1993
Vested benefit obligation	$(18,583)	$(24,388)
Accumulated benefit obligation	(21,127)	(27,190)
Projected benefit obligation	(27,129)	(32,818)
Plan assets at fair value	38,830	46,471
Plan assets in excess of projected benefit obligation	11,701	13,653
Unrecognized net gain	(3,616)	(3,855)
Unamortized net transitional assets	(3,402)	(4,755)

Unamortized prior service cost	1,058	508
Prepaid pension asset	$ 5,741	$ 5,551

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 8.5 and 7.0 percent for 1994 and 1993, respectively. The projected benefit obligations were determined under assumed compensation increases ranging from 5.0 percent to 7.0 percent for different employee groups for 1994 and 1993. The assumed long-term rate of return on plan assets was 8.5 percent for 1994 and 1993. 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.

In 1994, the company offered a one-time early retirement program to certain employees with whom the company settled its pension obligation by acquiring an annuity contract for vested benefits as of December 31, 1994. The gain of $24,000 associated with this settlement is included in consolidated net income for 1994. In connection with the early retirement program, the company provides 50 percent of the cost of health insurance to electing retirees up to normal retirement age. The company has accrued the present value of the health insurance for these retirees under this one-time early retirement program.

9. ACCRUED LIABILITIES

Accrued liabilities consisted of:

	December 31	
(Dollars in Thousands)	1994	1993
Accrued payroll and benefits	$ 10,514	$ 9,583
Provision for uninsured risks	8,741	8,786
Other accrued liabilities	15,254	9,943
Total accrued liabilities	$ 34,509	$ 28,312

10. DEFERRED REVENUE

During 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 taken into income. Related deferred revenue at December 31, 1994 is $12.8 million of which $2.4 million is included in the "Accrued liabilities" caption of the Consolidated Balance Sheets.

11. ENVIRONMENTAL AND RESTRUCTURING CHARGES

In 1992, the company recorded a provision for environmental expenditures of $5.0 million and a write-down of certain assets of $1.0 million and the related restructuring reserve of $.5 million. The purpose of the environmental provision was to bring the company's reserve for existing claims to a more conservative level of probability. These future expenditures are indicative of the company's commitment to improve and maintain the environment in which it operates. Environmental accruals are included in the "Accrued liabilities" caption of the company's consolidated balance sheets. In connection with a realignment of its operation in late 1992, the company conducted a review of its operating subsidiaries and determined that certain assets should be written down, which resulted in non-recurring charges of $1.5 million. These charges included a $1.0 million write-down of certain non-performing assets of its subsidiary located in Matamoros, Mexico, and an accrual of $.5 million for related restructuring costs. This wholly owned subsidiary continues to serve the surfactant market throughout Mexico.

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. The company has estimated a range of possible environmental and legal losses from $5.5 million to $21.6 million at December 31, 1994, compared to $4.4 million to $22.8 million at December 31, 1993. At December 31, 1994, the company's reserve was $6.9 million for legal and environmental matters compared to $7.2 million at December 31, 1993. The company made payments of $4.3 million in 1994 and $4.5 million in 1993 related to legal costs, settlements and costs related to remedial design studies at various sites. 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 1994, the company received $3.1 million from insurers related to legal costs previously incurred by the company. The recoveries reduced administrative expense in the Consolidated Statements of Income. There were no insurance recoveries recorded in 1993 or 1992.

At certain of the sites, estimates cannot be made of the total costs of compliance, or the company's share of such costs; accordingly, the company is unable to predict the effect thereof on future results of operations. In the event of one or more adverse determinations in any annual or interim period, the impact on results of operations for those periods could be material. However, based upon the company's present belief as to its relative involvement at these sites, other viable entities' responsibilities for cleanup and the extended period over which any costs would be incurred, the company believes that these matters will not have a material effect on the company's financial position. Certain of these matters are discussed in Item 3, Legal Proceedings, in the 1994 Form 10-K Annual Report and in other filings of the company with the Securities and Exchange Commission, which filings are available upon request from the company.

13. GEOGRAPHIC DATA

(Dollars in Thousands)	1994	1993	1992
Net Sales			
United States	$372,261	$368,461	$365,666
Other	71,687	70,364	70,098
	$443,948	$438,825	$435,764
Operating Income			
United States	$ 22,504	$ 22,122	$ 21,998
Other	7,144	5,128	8,511
	$ 29,648	$ 27,250	$ 30,509
Identifiable Assets			
United States	$279,919	$256,398	$255,696
Other	45,029	44,090	41,384
	$324,948	$300,488	$297,080

Operating income is calculated as income before net interest expense, environmental and restructuring charges, provision for income taxes and cumulative effect of accounting changes. Other includes subsidiaries in Canada, Europe and Mexico.

TEN YEAR SUMMARY
(In Thousands, except per share and employee data)

For the Year	1994	1993	1992
Net Sales	$443,948	$438,825	$435,764
Income from Operations	22,512	19,624	23,865(g)
Percent of net sales	5.1%	4.5%	5.5%
Gain on Sale of Assets	--	--	--
Environmental and Restructuring Charges	--	--	6,500
Pre-tax Income	22,512	19,624	17,365
Percent of net sales	5.1%	4.5%	4.0%
Provision for Income Taxes	8,667	8,848	6,942
Net Income	13,845	10,776	15,829(h)
Per share (a) (b)	1.29	.98	1.46
Percent of net sales	3.1%	2.5%	3.6%
Percent to stockholders' equity (c)	13.3%	10.8%	17.4%
Cash Dividends Paid	5,294	5,105	4,172
Per common share (a)	.4250	.4050	.3700
Depreciation and Amortization	28,935	27,679	23,914
Capital Expenditures	42,884	25,435	34,440
Average Common Shares Outstanding (a)	9,924	9,894	10,572
As of Year End			
Working Capital	$ 48,915	$ 48,569	$ 44,265
Current Ratio	1.6	1.7	1.6
Property, Plant and Equipment (net)	183,657	170,270	167,930
Total Assets	324,948	300,488	297,080
Long-term Debt	89,795	89,660	90,505
Stockholders' Equity	111,302	104,217	99,506
Per share (a) (d)	10.27	9.65	9.22
Number of Employees	1,265	1,302	1,317

(a) Adjusted for two-for-one common stock splits in 1988 and 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) Change in method of accounting for pensions increased net income in 1986 by $467 or $.04 per share.

(f) Pre-tax income before gain on sale of assets.

(g) Pre-tax income before environmental and restructuring charges and cumulative effect of accounting changes.

(h) 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.

QUARTERLY STOCK DATA (UNAUDITED)

	Stock Price Range				Dividends Paid Per Common Share	
	1994		1993			
Quarter	High	Low	High	Low	1994	1993
First	$ 16	$ 13-5/16	$ 18-13/16	$ 15-3/8	10.5c	10.0c
Second	14-5/16	13	18-9/16	15-13/16	10.5c	10.0c
Third	17-5/8	12-3/8	16-13/16	14-1/2	10.5c	10.0c
Fourth	17-11/16	14-1/2	14-13/16	12-9/16	11.0c	10.5c
Year	17-11/16	12-3/8	18-13/16	12-9/16	42.5c	40.5c

1991	1990	1989	1988	1987	1986	1985
$414,069	$389,612	$346,350	$333,033	$288,935	$259,787	$235,919
18,866	21,420(f)	11,701	20,554	19,230	14,037	9,231
4.6%	5.5%	3.4%	6.2%	6.7%	5.4%	3.9%
--	874	--	--	--	--	--
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18,866	22,294	11,701	20,554	19,230	14,037	9,231
4.6%	5.7%	3.4%	6.2%	6.7%	5.4%	3.9%
6,319	7,803	3,861	7,126	8,271	6,524	3,760
12,547	14,491	7,840	13,428	10,959	7,513(e)	5,471
1.15	1.32	.71	1.19	.91	.63(e)	.47
3.0%	3.7%	2.3%	4.0%	3.8%	2.9%	2.3%
15.2%	20.5%	11.7%	22.4%	19.9%	15.2%	11.5%
3,603	3,190	2,919	2,658	2,386	2,145	2,000
.3300	.2900	.2650	.2375	.2075	.1850	.1725
21,108	19,391	17,061	15,393	13,815	11,630	9,949
33,728	38,375	34,090	20,442	25,705	14,322	19,189
10,916	10,992	11,034	11,216	11,954	11,888	11,586
$ 41,972	$ 38,943	$ 36,952	$ 28,498	$ 26,637	$ 23,386	$ 20,602
1.7	1.7	1.8	1.6	1.7	1.6	1.6
157,063	143,342	122,509	104,697	98,994	85,607	82,796
271,442	246,992	215,351	185,601	172,726	152,794	139,307
89,759	77,326	68,568	45,369	44,399	34,868	36,962
90,866	82,698	70,741	66,790	59,936	55,029	49,575
8.35	7.57	6.45	6.06	5.32	4.76	4.28
1,317	1,311	1,152	1,028	1,002	948	894

QUARTERLY FINANCIAL DATA (UNAUDITED)
(Dollars in Thousands, except per share data)

	1994					1993				
Quarter	First	Second	Third	Fourth	Year	First	Second	Third	Fourth	Year
Net Sales	$107,279	$112,305	$110,761	$113,603	$443,948	$114,620	$110,578	$111,111	$102,516	$438,825
Gross Profit	19,143	20,657	20,983	20,317	81,100	22,868	20,662	21,149	15,356	80,035
Interest, net	(1,918)	(1,803)	(1,639)	(1,776)	(7,136)	(1,887)	(1,904)	(1,869)	(1,966)	(7,626)
Pre-tax Income (Loss)	3,427	6,912	6,939	5,234	22,512	7,975	5,760	6,688	(799)	19,624
Net Income (Loss)	2,022	4,078	4,112	3,633	13,845	4,687	3,368	3,170	(449)	10,776
Net Income (Loss) per Share (a)	.18	.38	.39	.34	1.29	.44	.31	.29	(.08)	.98

(a) Restated for the two-for-one common stock split effective December 15, 1994.

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

EXHIBIT (23)

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports dated February 10, 1995, included or incorporated by reference in Stepan Company's Annual Report in this Form 10-K for the year ended December 31, 1994, 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 24, 1995

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 24th day of March, 1995.

F. QUINN STEPAN

F. Quinn Stepan

JAMES J. GAVIN, JR.

James J. Gavin, Jr.

THOMAS F. GROJEAN

Thomas F. Grojean

JAMES A. HARTLAGE

James A. Hartlage

WALTER J. KLEIN

Walter J. Klein

PAUL H. STEPAN

Paul H. Stepan

ROBERT D. CADIEUX

Robert D. Cadieux

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 1994 AND CONSOLIDATED STATEMENT OF INCOME FOR THE TWELVE MONTHS THEN ENDED AND IS QUALIFIFED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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DEC-31-1994
DEC-31-1994
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71,970
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417,654
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