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

FORM 10-Q

(MARK ONE)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2004

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM ______ TO ______

1-4462
Commission File Number

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

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

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

Registrant's telephone number (847) 446-7500

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act) Yes ☒ No ☐

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

Class	Outstanding at July 31, 2004
Common Stock, $1 par value	8,975,970 Shares

Part I FINANCIAL INFORMATION

Item 1 - Financial Statements

STEPAN COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
Unaudited

	Three Months Ended June 30		Six Months Ended June 30	
(Dollars in thousands, except per share amounts)	**2004**	**2003**	**2004**	**2003**
Net Sales	$ 236,347	$ 200,429	$ 457,734	$ 387,509
Cost of Sales	205,851	170,248	397,586	332,222
Gross Profit	30,496	30,181	60,148	55,287
Operating Expenses:				
Marketing	7,200	7,856	14,594	14,484
Administrative	9,749	8,299	17,690	15,674
Research, development and technical services	6,432	6,362	12,746	12,577
	23,381	22,517	45,030	42,735
Operating Income	7,115	7,664	15,118	12,552
Other Income (Expenses):				
Interest, net	(1,792)	(2,035)	(3,853)	(4,219)
Income from equity in joint venture	533	725	1,018	1,177
Foreign exchange gain (loss) and other, net	(270)	805	(771)	1,089
	(1,529)	(505)	(3,606)	(1,953)
Income Before Provision for Income Taxes	5,586	7,159	11,512	10,599
Provision for Income Taxes	1,784	2,399	3,680	3,551
Net Income	$ 3,802	$ 4,760	$ 7,832	$ 7,048
Net Income Per Common Share (Note 6):				
Basic	$ 0.40	$ 0.51	$ 0.83	$ 0.75
Diluted	$ 0.39	$ 0.49	$ 0.81	$ 0.72
Shares Used to Compute Net Income Per Common Share (Note 6):				
Basic	8,968	8,885	8,956	8,883
Diluted	9,688	9,757	9,693	9,751
Dividends per Common Share	$ 0.1925	$ 0.1900	$ 0.3850	$ 0.3800

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

STEPAN COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)	June 30, 2004	December 31, 2003
	Unaudited	
Assets		
Current Assets:		
Cash and cash equivalents	$ 6,625	$ 4,235
Receivables, net	152,877	113,353
Inventories (Note 3)	64,109	70,548
Deferred income taxes	8,269	8,077
Other current assets	8,101	8,247
Total current assets	239,981	204,460
Property, Plant and Equipment:		
Cost	755,828	745,097
Less: accumulated depreciation	551,638	534,432
Property, plant and equipment, net	204,190	210,665
Goodwill, net (Note 9)	7,664	7,621
Other intangible assets, net (Note 9)	11,099	12,016
Other non-current assets	27,894	29,455
Total assets	$ 490,828	$ 464,217
Liabilities and Stockholders' Equity		
Current Liabilities:		
Current maturities of long-term debt	$ 17,648	$ 23,670
Accounts payable	91,426	74,113
Accrued liabilities	32,088	35,156
Total current liabilities	141,162	132,939
Deferred income taxes	13,560	14,570
Long-term debt, less current maturities	107,421	92,004
Other non-current liabilities	61,780	62,637
Commitments and Contingencies (Note 4)		
Minority Interest (Note 10)	945	—
Stockholders' Equity:		
5-1/2% convertible preferred stock, cumulative, voting without par value; authorized 2,000,000 shares; issued 581,482 shares in 2004 and 582,082 shares in 2003	14,537	14,552
Common stock, $1 par value; authorized 30,000,000 shares; issued 10,007,871 shares in 2004 and 9,900,265 shares in 2003	10,008	9,900
Additional paid-in capital	23,524	22,277
Accumulated other comprehensive loss (Note 7)	(19,440)	(19,560)
Retained earnings (unrestricted approximately $32,270 in 2004 and $29,027 in 2003)	158,762	154,780
Less: Treasury stock, at cost 1,032,051 shares in 2004 and 966,671 in 2003	(21,431)	(19,882)
Stockholders' equity	165,960	162,067
Total liabilities and stockholders' equity	$ 490,828	$ 464,217

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

STEPAN COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited

(Dollars in thousands)	Six Months Ended June 30 2004	2003
Cash Flows From Operating Activities		
Net income	$ 7,832	$ 7,048
Depreciation and amortization	19,967	20,599
Recognition of deferred revenue	(222)	(229)
Deferred income taxes	(1,405)	47
Other non-cash items	675	(992)
Changes in assets and liabilities:		
Receivables, net	(39,524)	(18,633)
Inventories	6,439	(1,261)
Accounts payable and other accrued liabilities	12,671	11,133
Pension liabilities	1,838	1,239
Environmental and legal liabilities	(1,220)	1,044
Other current assets	146	368
Net Cash Provided by Operating Activities	7,197	20,363
Cash Flows From Investing Activities		
Expenditures for property, plant and equipment	(13,168)	(18,539)
Dividend from Philippine joint venture	1,700	—
Other non-current assets	233	(1,691)
Formation of China joint venture	945	—
Net Cash Used in Investing Activities	(10,290)	(20,230)
Cash Flows From Financing Activities		
Revolving debt and notes payable to banks, net	6,146	17,805
Other debt borrowings	15,856	162
Other debt repayments	(12,607)	(13,122)
Dividends paid	(3,850)	(3,776)
Stock option exercises	295	69
Other	(301)	(17)
Net Cash Provided by Financing Activities	5,539	1,121
Effect of Exchange Rate Changes on Cash	(56)	(575)
Net Increase in Cash and Cash Equivalents	2,390	679
Cash and Cash Equivalents at Beginning of Period	4,235	3,188
Cash and Cash Equivalents at End of Period	$ 6,625	$ 3,867
Supplemental Cash Flow Information:		
Cash payments of interest	$ 3,974	$ 4,319
Cash payments of income taxes, net of refunds	$ 5,773	$ 2,865

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

STEPAN COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2004
Unaudited

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements included herein have been prepared by the Stepan Company (the "Company"), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations, although management believes that the disclosures are adequate and make the information presented not misleading. In the opinion of management all normal recurring adjustments necessary to present fairly the condensed consolidated financial position of the Company as of June 30, 2004, and the condensed consolidated results of operations for the three and six months then ended and cash flows for the six months then ended have been included.

2. STOCK-BASED COMPENSATION

Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Accordingly, no stock-based employee compensation cost is reflected in net income, as all options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123.

	For the Three Months Ended June 30		For the Six Months Ended June 30	
(In thousands, except per share amounts)	2004	2003	2004	2003
Net income, as reported	$ 3,802	$ 4,760	$7,832	$7,048
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	184	150	341	296
Net income, pro forma	$ 3,618	$ 4,610	$7,491	$6,752
Earnings per share:				
Basic - as reported	$ 0.40	$ 0.51	$ 0.83	$ 0.75
Basic - pro forma	$ 0.38	$ 0.50	$ 0.79	$ 0.72
Diluted - as reported	$ 0.39	$ 0.49	$ 0.81	$ 0.72
Diluted - pro forma	$ 0.37	$ 0.47	$ 0.77	$ 0.69

3. <u>INVENTORIES</u>

Inventories comprised the following:

(Dollars in thousands)	June 30, 2004	December 31, 2003
Finished products	$ 42,334	$ 47,809
Raw materials	21,775	22,739
Total inventories	$ 64,109	$ 70,548

Inventories priced using the last-in, first-out (LIFO) inventory valuation method as of June 30, 2004 and December 31, 2003, amounted to 79 and 78 percent of total inventories, respectively. If the first-in, first-out (FIFO) inventory valuation method had been used for all inventories, inventory balances would have been approximately $10.2 million and $8.6 million higher than reported at June 30, 2004, and December 31, 2003, respectively.

4. <u>CONTINGENCIES</u>

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 (CERCLA) and the Superfund amendments of 1986 (“Superfund”). The Company has been named by the government as a potential responsible party at 21 waste disposal sites where clean up costs have been or may be incurred under CERCLA and similar state statutes. In addition, damages are being claimed against the Company in general liability actions for alleged personal injury or property damage in the case of some disposal and plant sites. The Company believes that it has made adequate provisions for the costs it may incur with respect to these sites.

After partial remediation payments at certain sites, the Company has estimated a range of possible environmental and legal losses from $8.7 million to $40.7 million at June 30, 2004. At June 30, 2004, the Company’s best estimate of the reserve for such losses was $18.9 million for legal contingencies and environmental matters compared to $19.6 million at December 31, 2003.

For certain sites, estimates cannot be made of the total costs of compliance, or the Company’s share of such costs; accordingly, the Company is unable to predict the effect thereof on future results of operations. In the event of one or more adverse determinations in any annual or interim period, the impact on the Company’s financial position, cash flows and 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.

Following are summaries of the environmental proceedings related to the major environmental sites where the Company has responsibility for participating in remediation efforts:

Maywood, New Jersey, Site

The Company's site in Maywood, New Jersey and property formerly owned by the Company adjacent to its current site, were listed on the National Priorities List in September 1993 pursuant to the provisions of the CERCLA because of certain alleged chemical contamination. Pursuant to an Administrative Order on Consent entered into between the United States Environmental Protection Agency (USEPA) and the Company for property formerly owned by the Company, and the issuance of an order by USEPA to the Company for property currently owned by the Company, the Company completed a Remedial Investigation Feasibility Study (RI/FS) in 1994. The Company submitted the Draft Final FS for Soil and Source Areas (Operable Unit 1) in September 2002. In addition, the Company submitted the Draft Final FS for Groundwater (Operable Unit 2) in June 2003. Discussions between USEPA and the Company regarding the chemical remediation are continuing. The Company is awaiting the issuance of a Record of Decision (ROD) from USEPA relating to the currently owned and formerly owned Company property and the proposed remediation. The final ROD will be issued sometime after a public comment period.

In 1985, the Company entered into a Cooperative Agreement with the United States of America represented by the Department of Energy (Agreement). Pursuant to this Agreement, the Department of Energy (DOE) took title to radiological contaminated materials and was to remediate, at its expense, all radiological waste on the Company's property in Maywood, New Jersey. The Maywood property (and portions of the surrounding area) were remediated by the DOE under the Formerly Utilized Sites Remedial Action Program, a federal program under which the U.S. Government undertook to remediate properties which were used to process radiological material for the U.S. Government. In 1997, responsibility for this clean-up was transferred to the United States Army Corps of Engineers (USACE). On January 29, 1999, the Company received a copy of a USACE Report to Congress dated January 1998 in which the USACE expressed their intention to evaluate, with the USEPA, whether the Company and/or other parties might be responsible for cost recovery or contribution claims related to the Maywood site. Subsequent to the issuance of that report, the USACE advised the Company that it had requested legal advice from the Department of Justice as to the impact of the Agreement.

By letter dated July 28, 2000, the Department of Justice advised the Company that the USACE and USEPA had referred to the Justice Department claims against the Company for response costs incurred or to be incurred by the USACE, USEPA and the DOE in connection with the Maywood site and the Justice Department stated that the United States is entitled to recovery of its response costs from the Company under CERCLA. The letter referred to both radiological and non-radiological hazardous waste at the Maywood site and stated that the United States has incurred unreimbursed response costs to date of $138 million. Costs associated with radiological waste at the Maywood site, which the Company believes represent all but a small portion of the amount referred to in the Justice Department letter, could be expected to aggregate substantially in excess of that amount. In the letter, the Justice Department invited the Company to discuss settlement of the matter in order to avoid the need for litigation. The Company believes that its liability, if any, for such costs has been resolved by the aforesaid Agreement. Despite the fact that the Company continues to believe that it has no liability to the United States for such costs, discussions with the Justice Department are currently ongoing to attempt to resolve this matter.

The Company believes it has adequate reserves for claims associated with the Maywood site, and has recorded a liability for the estimated probable costs it expects to incur at the site related to remediation of chemical contamination. However, depending on the results of the ongoing discussions regarding the Maywood site, particularly radiological contamination, the final cost of the remediation could differ from the current estimates.

Ewan and D'Imperio Sites

The Company has been named as a potentially responsible party (PRP) in the case *USEPA v. Jerome Lightman* (92 CV 4710 D. N. J.), which involves the Ewan and D'Imperio Superfund Sites located in New Jersey. Trial on the issue of the Company's liability at these sites was completed in March 2000. The Company is awaiting a decision from the court. If the Company is found liable at either site, a second trial as to the Company's allocated share of clean-up costs at these sites will be held. The Company believes it has adequate defenses to the issue of liability. In the event of an unfavorable outcome related to the issue of liability, the Company believes it has adequate reserves. On a related matter, the Company has filed an appeal to the United States Third Circuit Court of Appeals objecting to the lodging of a partial consent decree in favor of the United States Government in this action. Under the partial consent decree, the government recovered past costs at the site from all PRPs including the Company. The Company paid its assessed share but by objecting to the partial consent decree, the Company is seeking to recover back the sums it paid.

Regarding the D'Imperio Superfund Site, USEPA previously indicated it would seek penalty claims against the Company based on the Company's alleged noncompliance with the modified Unilateral Administrative Order (Order). The Company entered into a Consent Decree with USEPA, which resolves all claims asserted against the Company for the alleged noncompliance with the Order. Following the requisite notice and comment period, the Company expects the Consent Decree to be entered by the court in 2004. The payment due under the Consent Decree will not have a material impact on the financial position, results of operations or cash flows of the Company. In addition, the Company received notice from the New Jersey Department of Environmental Protection (NJDEP) dated March 21, 2001, that NJDEP will pursue cost recovery against the alleged responsible parties, including the Company. The NJDEP's claims include costs related to remediation of the D'Imperio Superfund Site in the amount of $434,406 and alleged natural resource damages in the amount of $529,584 (as of November 3, 2000). The

NJDEP settled such claims against the alleged responsible parties, resulting in the Company paying its portion ($83,061) in July 2002. This payment is subject to reallocation after the allocation phase of the above-identified trial, if any. Also, USEPA issued a Unilateral Administrative Order dated November 5, 2003, directed to all PRPs to perform certain remedial activities at the D'Imperio Superfund Site. The cost for all PRPs for this work is estimated to be $300,000 to $450,000. The Company would be responsible for its allocated share of these costs. The amount due by the Company will not have a material impact on the financial position, results of operations or cash flows of the Company.

Wilmington Site

The Company has received two Requests for Information from the Commonwealth of Massachusetts Department of Environmental Protection relating to the Company's formerly-owned site at 51 Eames Street, Wilmington, Massachusetts, the most recent of which was in October 2002. The Company's response to the October 2002 request was filed in December 2002. Remediation at this site is being managed by its current owner to whom the Company sold the property in 1980. The Company subsequently entered into an agreement with the current owner whereby the Company is obligated to contribute to the response costs associated with this site once total site remediation costs exceed certain levels. In July 2003, the Company received a notice that contribution levels had been reached and a demand for payment from the current owner as to the Company's outstanding share of environmental response costs incurred to-date ($0.9 million) is due under the terms of the agreement. The Company evaluated the current owner's demand for payment and paid the current owner $0.9 million in two installments in March 2004 and April 2004. In July 2004, the Company received a demand for payment from the current owner requesting payment for the first and second quarters of 2004. The total amount owed is approximately $67,000. The Company is currently evaluating this most recent demand for payment. Under the agreement, the Company is obligated to contribute up to five percent of future response costs associated with this site with no limitation on the ultimate amount of contributions. The Company has recorded a reserve of $0.7 million for current and future claims associated with this site. However, depending on the ultimate cost of the remediation at this site, the amount for which the company is liable could differ from the current estimates. In addition, the Company and other prior owners entered into an agreement in April 2004 waiving certain statute of limitations defenses for claims which may be filed by the Town of Wilmington, Massachusetts, in connection with this site. While the Company has denied any liability for any such claims, the Company agreed to this waiver while the parties continue to discuss the resolution of any potential claim, which may be filed.

Lightman Drum Site

The Company received a Section 104(e) Request for Information from USEPA dated March 21, 2000, regarding the Lightman Drum Company Site located in Winslow Township, New Jersey. The Company responded to this request on May 18, 2000. In addition, the Company received a Notice of Potential Liability and Request to Perform RI/FS dated June 30, 2000, from USEPA. The Company has decided that it will participate in the performance of the RI/FS. However, based on the current information known regarding this site, the Company is unable to predict what its liability, if any, will be for this site.

Liquid Dynamics Site

The Company received a General Notice of Potential Liability letter from USEPA dated October 18, 2002, regarding the Liquid Dynamics Site located in Chicago, Illinois. The Company submitted a response to USEPA on November 5, 2002, stating that it is interested in negotiating a resolution of its potential responsibility at this site. In addition, the Company recently joined the PRP group. Based on the fact that the Company believes it is de minimis at this site, the Company believes that a resolution of its liability at this site will not have a material impact on the financial position, results of operations or cash flows of the Company.

Martin Aaron Site

The Company received a Section 104(e) Request for Information from USEPA dated June 2, 2003, regarding the Martin Aaron Site located in Camden, New Jersey. The Company's response was submitted on August 11, 2003. In addition, the Company and other PRPs received a Notice of Potential Liability and Demand for Reimbursement of Costs Expended at this site dated June 9, 2004. The Company and other PRPs have requested an extension until August 27, 2004, to file their response. The Company continues to investigate this matter and therefore, cannot predict what its liability, if any, will be for this site.

Wells G & H Superfund Site

The Company received a Section 104(e) Request for Information from USEPA dated December 15, 2003, regarding the Wells G & H Superfund Site located in Woburn, Massachusetts. The Company's response was submitted on March 18, 2004. The Company continues to investigate this matter and therefore, cannot predict what its liability, if any, will be for this site.

Bottle House Site

The Company received a notice from the Pennsylvania Department of Environmental Protection dated June 23, 2004, regarding the Bottle House Site located in City of Allentown, Lehigh County, Pennsylvania. A response to this notice is due on or about August 16, 2004. The Company is currently investigating this matter, and therefore, cannot predict what its liability, if any, will be for this site.

Other

The Company performs ongoing ground water monitoring at a number of its plant sites. Recent results of such monitoring indicated that future remediation may be required at one of the Company's sites. Although there has been no enforcement order, the Company is in the process of preparing a remediation plan that will be submitted to the appropriate governmental agency. The Company believes it has adequate reserves for the remediation of this site.

5. PENSION PLANS

Components of Net Periodic Benefit Cost

	UNITED STATES			
	Three Months Ended June 30		Six Months Ended June 30	
(Dollars in thousands)	2004	2003	2004	2003
Service cost	$ 877	$ 789	$ 1,755	$ 1,576
Interest cost	1,426	1,361	2,852	2,718
Expected return on plan assets	(1,642)	(1,619)	(3,285)	(3,233)
Amortization of prior service cost	87	90	174	179
Amortization of net loss	324	37	649	74
Net periodic benefit cost	$ 1,072	$ 658	$ 2,145	$ 1,314

	UNITED KINGDOM			
	Three Months Ended June 30		Six Months Ended June 30	
(Dollars in thousands)	2004	2003	2004	2003
Service cost	$ 143	$ 101	$ 288	$ 202
Interest cost	166	128	335	256
Expected return on plan assets	(144)	(110)	(291)	(220)
Amortization of net loss	13	11	26	22
Net periodic benefit cost	$ 178	$ 130	$ 358	$ 260

Employer Contributions

As disclosed in its financial statements for the year ended December 31, 2003, the Company expected to contribute $3,841,000 to its U.S. qualified pension plans and to pay $117,000 related to its unfunded non-qualified plans in 2004. In April 2004, pension relief legislation was signed into law; as a result, the Company now expects to contribute $1,574,000 to its U.S. qualified pension plans in 2004. The original estimate for the unfunded non-qualified plans is unchanged. As of June 30, 2004, $482,000 had been contributed to the qualified plans and $75,000 had been paid related to the non-qualified plans.

6. EARNINGS PER SHARE

Below is the computation of basic and diluted earnings per share for the three and six months ended June 30, 2004 and 2003.

(In thousands, except per share amounts)	Three Months Ended June 30 2004	Three Months Ended June 30 2003	Six Months Ended June 30 2004	Six Months Ended June 30 2003
Computation of Basic Earnings per Share				
Net income	$3,802	$4,760	$7,832	$7,048
Deduct dividends on preferred stock	(200)	(200)	(400)	(400)
Income applicable to common stock	$3,602	$4,560	$7,432	$6,648
Weighted-average number of common shares outstanding	8,968	8,885	8,956	8,883
Basic earnings per share	$ 0.40	$ 0.51	$ 0.83	$ 0.75
Computation of Diluted Earnings per Share				
Net income	$3,802	$4,760	$7,832	$7,048
Weighted-average number of common shares outstanding	8,968	8,885	8,956	8,883
Add net shares issuable from assumed exercise of options (under treasury stock method)	56	207	73	203
Add weighted-average shares issuable from assumed conversion of convertible preferred stock	664	665	664	665
Shares applicable to diluted earnings	9,688	9,757	9,693	9,751
Diluted earnings per share	$ 0.39	$ 0.49	$ 0.81	$ 0.72

7. COMPREHENSIVE INCOME

Comprehensive income includes net income and all other non-owner changes in equity that are not reported in net income. Below is the Company’s comprehensive income for the three and six months ended June 30, 2004 and 2003.

(Dollars in thousands)	Three Months Ended June 30 2004	Three Months Ended June 30 2003	Six Months Ended June 30 2004	Six Months Ended June 30 2003
Net income	$ 3,802	$4,760	$7,832	$ 7,048
Other comprehensive income:				
Foreign currency translation gain/(loss)	(1,268)	3,195	48	3,374
Unrealized gain/(loss) on securities	(10)	412	72	327
Comprehensive income	$ 2,524	$8,367	$7,952	$ 10,749

At June 30, 2004, the total accumulated other comprehensive loss of $19,440,000 consisted of $5,741,000 of foreign currency translation adjustments, $196,000 of unrealized gains on securities (net of income taxes of $131,000) and $13,895,000 of minimum pension liability adjustments (net of income taxes of $9,000,000). At December 31, 2003, the total accumulated other comprehensive loss of $19,560,000 included $5,789,000 of foreign currency translation adjustments, $124,000 of unrealized gains on securities (net of income taxes of $83,000) and $13,895,000 of minimum pension liability adjustments (net of income taxes of $9,000,000). Unrealized gains on securities relate entirely to investments held for the deferred compensation plans.

8. SEGMENT REPORTING

The Company has three reportable segments: surfactants, polymers and specialty products. Financial results of the Company's operating segments for the three and six months ended June 30, 2004 and 2003, are summarized below:

(Dollars in thousands)	**Surfactants**	**Polymers**	**Specialty Products**	**Segment Totals**
For the three months ended June 30, 2004				
Net sales	$ 181,415	$ 48,334	$ 6,598	$ 236,347
Operating income	10,430	4,377	1,681	16,488
For the three months ended June 30, 2003				
Net sales	$ 159,134	$ 34,897	$ 6,398	$ 200,429
Operating income	9,411	5,258	1,595	16,264
For the six months ended June 30, 2004				
Net sales	$ 357,416	$ 85,888	$ 14,430	$ 457,734
Operating income	18,783	8,214	4,411	31,408
For the six months ended June 30, 2003				
Net sales	$ 312,524	$ 62,895	$ 12,090	$ 387,509
Operating income	16,936	7,804	2,878	27,618

Below are reconciliations of segment operating income to consolidated income before income taxes:

	Three Months Ended June 30		**Six Months Ended June 30**	
(Dollars in thousands)	**2004**	**2003**	**2004**	**2003**
Operating income segment totals	$16,488	$16,264	$ 31,408	$ 27,618
Unallocated corporate expenses	(9,373)	(8,600)	(16,290)	(15,066)
Interest expense	(1,792)	(2,035)	(3,853)	(4,219)
Equity in earnings of joint venture	533	725	1,018	1,177
Foreign exchange and other, net	(270)	805	(771)	1,089
Consolidated income before income taxes	$ 5,586	$ 7,159	$ 11,512	$ 10,599

Unallocated corporate expenses include corporate administrative (including legal and environmental expenses) and corporate manufacturing expenses, which are not included in segment operating income and are not used to evaluate segment performance.

9. GOODWILL AND OTHER INTANGIBLE ASSETS

The Company's net carrying values of goodwill were $7,664,000 and $7,621,000 as of June 30, 2004 and December 31, 2003, respectively. The entire amount of goodwill related to the surfactants reporting unit. The change in net carrying value resulted from the effects of currency translation.

The following table reflects the components of all other intangible assets, which have finite lives, as of June 30, 2004 and December 31, 2003.

(Dollars in thousands)	**Gross Carrying Amount**		**Accumulated Amortization**	
	June 30, 2004	**Dec. 31, 2003**	**June 30, 2004**	**Dec. 31, 2003**
Other Intangible Assets:				
Patents	$ 2,000	$ 2,000	$ 800	$ 733
Trademarks, customer lists, know-how	18,420	18,406	8,679	8,007
Non-compete agreements	2,299	2,310	2,141	1,960
Total	$ 22,719	$ 22,716	$ 11,620	$ 10,700

Aggregate amortization expenses for the three and six months ended June 30, 2004, were $524,000 and $913,000, respectively. Aggregate amortization expenses for the three and six months ended June 30, 2003 were $538,000 and $912,000, respectively. Estimated amortization expense for identifiable intangibles assets, other than goodwill, for the current and each of the five succeeding fiscal years are as follows:

(Dollars in thousands)	
For year ending 12/31/04	$1,639
For year ending 12/31/05	$1,624
For year ending 12/31/06	$1,461
For year ending 12/31/07	$1,461
For year ending 12/31/08	$1,457
For year ending 12/31/09	$1,370

10. CHINA JOINT VENTURE

In February 2004, the Company entered into a joint venture agreement with Sinopec, Jinling Petrochemical Corporation in Nanjing, China. The joint venture was formed to manufacture the Company's aromatic polyester polyols for the domestic Chinese market. Once constructed, the China facility will join the Company's Millsdale, Illinois and Wesseling, Germany sites to further expand the Company's position as a worldwide provider of polyester polyols. Final construction of the facility is expected by mid-2005.

The Company and its partner own 55 percent and 45 percent, respectively, of the joint venture. As such, the Company will consolidate in its financial statements the joint venture's balance sheet, statement of income and statement of cash flows. The Company's June 30, 2004, financial statements reflect the partners' initial investment and the related minority interest.

11. STATEMENTS OF CASH FLOWS

Non-cash financing activities for the six months ended June 30, 2004, included the receipt into treasury of 65,423 shares of the Company's common stock tendered in lieu of cash by employees exercising options on 89,166 shares of the Company's common stock. The tendered shares, which were owned by employees for more than six months, were valued at $1,550,000.

12. RECLASSIFICATIONS

Certain amounts in the 2003 financial statements have been reclassified to conform to the 2004 presentation, notably $752,000 and $1,004,000 of foreign exchange gains for the three and six months ended June 30, 2003, respectively, were reclassified from 'Cost of Sales' to 'Foreign exchange gain (loss) and other, net' in the 2003 statements of income.

Item 2 - Management's Discussion and Analysis of Financial Conditions and Results of Operations

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

OVERVIEW

Management's Discussion and Analysis should be read in conjunction with the 'Overview' section of Management's Discussion and Analysis included in the Company's 2003 Form 10-K.

RESULTS OF OPERATIONS

Three Months Ended June 30, 2004 and 2003

Summary

Net income for the second quarter of 2004 decreased $1.0 million, or 20 percent, to $3.8 million, or $0.39 per diluted share, compared to $4.8 million, or $0.49 per diluted share, for the second quarter of 2003. Below is a summary discussion of the major factors leading to the quarter-to-quarter decline in net income. A detailed discussion of second quarter 2004 segment operating performance follows the summary.

Consolidated net sales increased $35.9 million, or 18 percent, to $236.3 million for the second quarter of 2004 from $200.4 million for the second quarter of 2003. The effect of foreign currency translation, which reflected the strengthening of the European euro, British pound sterling and Canadian dollar against the U.S. dollar, contributed $4.0 million of the increase in consolidated net sales. All three segments reported current quarter net sales that exceeded net sales reported in the prior year's quarter. Surfactants segment net sales were up $22.3 million, or 14 percent, due to higher selling prices, increased U.S. ('domestic') and foreign operations' sales volumes and favorable foreign currency translation. Net sales for the polymers segment increased $13.4 million, or 39 percent, due to higher sales volume for all businesses and higher selling prices. The specialty products segment reported a $0.2 million, or three percent, increase in net sales due to higher sale of food and flavoring products.

Operating income fell $0.5 million, or seven percent, to $7.1 million for the second quarter of 2004 from $7.6 million for the same quarter of 2003. Operating incomes for the surfactants and specialty products segments were up 11 percent and five percent, respectively, but operating income for the polymers segment dropped 17 percent. Rising raw material costs continued to negatively impact profit margins, particularly for the surfactants and polymers segments. Operating expenses, which include marketing, administrative and research and development expenses, increased $0.9 million, or four percent, to $23.4 million for the second quarter of 2004 from $22.5 million for the second quarter of 2003. Compensation expense related to the Company's deferred compensation plan contributed $0.8 million of the increase due to the increase in the price of the Company's stock used to compute changes in deferred compensation. Stepan Company common stock closed at $26.15 per share on June 30, 2004, compared to $22.84 per share on March 31, 2004. In addition, 2003 second quarter expenses were reduced by a $1.0 million recovery of settlement costs related to an old legal case. The increases were partially offset by a $0.5 million reduction in environmental remediation costs and by lower marketing expenses for most geographic locations.

Interest expenses declined $0.2 million, or 12 percent, from quarter to quarter due to a higher proportion of bank debt, which carries lower interest rates than the Company's long-term notes. Lower average debt levels also contributed to the decline.

Income from the Company's Philippine joint venture fell $0.2 million due primarily to a less favorable mix of sales.

Foreign exchange and other, net, which includes foreign exchange gains and losses and investment-related income and expense, was $0.3 million of expense in the second quarter of 2004 compared to $0.8 million of income in the second quarter of 2003, resulting in a $1.1 million unfavorable swing in expense. Foreign exchange losses accounted for the current quarter results compared to foreign exchange gains in the same quarter of last year.

The effective tax rate was 31.9 percent for the second quarter ended June 30, 2004, compared to 33.5 percent for the second quarter ended June 30, 2003. The lower effective tax rate was primarily attributable to a tax benefit realized on a $2.8 million charitable contribution of intellectual property and state tax benefits realized on amended tax returns. These benefits were partially offset by tax provided on a $2.0 million dividend received from the Company's Philippine joint venture.

Segment Results

(Dollars in thousands)	Surfactants	Polymers	Specialty Products	Segment Results	Corporate	Total
For the three months ended June 30, 2004						
Net sales	$ 181,415	$ 48,334	$ 6,598	$ 236,347	—	$ 236,347
Operating income	10,430	4,377	1,681	16,488	(9,373)	7,115
For the three months ended June 30, 2003						
Net sales	$ 159,134	$ 34,897	$ 6,398	$ 200,429	—	$ 200,429
Operating income	9,411	5,258	1,595	16,264	(8,600)	7,664

Surfactants

Surfactants net sales for the second quarter of 2004 increased $22.3 million, or 14 percent, from net sales for the second quarter of 2003. Approximately $3.6 million of the increase was attributable to the favorable effects of foreign currency translation, due particularly to the strengthening euro, British pound sterling and Canadian dollar against the U.S. dollar. Excluding the effects of foreign currency translation, net surfactant sales increased $18.7 million. Domestic net sales increased $11.3 million, or 11 percent, on sales volume that was up one percent. Second quarter 2004 selling price increases, which were effected to pass rising raw material costs on to customers, accounted for most of the rise in net sales. The lost business that occurred in the second half of 2003 when two large customers moved previously outsourced production into internal production facilities was replaced by the culmination of small to moderate sales volume gains for numerous Company product lines. Excluding the effects of foreign currency translation, net sales for foreign operations increased $7.4 million on a 12 percent sales volume increase. The Company's European and Mexican operations accounted for most of the net sales improvement, reporting net sales increases of $4.1 million and $3.4 million, respectively. Sales volume for European operations increased 14 percent due to increases across most major product lines. Sales volume for Mexican operations increased 55 percent due primarily to an increase in fabric softener sales volume, which contributed $2.6 million of Mexico's quarter-to-quarter net sales growth.

Surfactants second quarter 2004 operating income increased $1.0 million, or 11 percent, from second quarter 2003 operating income. Gross profit was $22.8 million for the second quarter of 2004, up slightly from the $22.7 million reported for the second quarter of 2003. Excluding the favorable effects of foreign currency translation, surfactants gross profit declined $0.3 million, to $22.4 million. Domestic gross profit for the second quarter of 2004 was down $0.4 million, or three percent, from second quarter 2003 gross profit. Second quarter 2004 price increases were sufficient to cover most rising material costs; however, higher freight and outsourcing costs contributed to the decline in gross profit. Prices for most major surfactant raw materials increased during the second quarter, as high global demand kept supplies tight. The Company announced a July 1, 2004, selling price increase to recover further increases in material costs. Excluding the effects of foreign currency translation, second quarter 2004 gross profit for foreign operations increased $0.1 million over gross profit for last year's second quarter. Higher raw material costs nearly offset the effect of higher sales volumes. Operating expenses decreased $1.0 million, or seven percent, from quarter to quarter. Domestic expenses accounted for half of the expense decline due to reductions in many areas including salaries, equipment rental and advertising and promotion expenses. Foreign operations accounted for the remainder of the expense decline as all subsidiaries reported decreased or essentially unchanged operating expenses.

Polymers

Polymers net sales for the second quarter of 2004 increased $13.4 million, or 39 percent, over net sales for the second quarter of 2003. A 24 percent increase in sales volume, higher selling prices, and $0.4 million of favorable foreign currency translation on European sales all led to the increase in net sales. Within the polymers segment, polyurethane polyols net sales increased $7.9 million, or 38 percent, on sales volume that grew 30 percent due primarily to an increased share of the growing European laminate board market and to an improved U.S. construction economy that led to gaining additional domestic volume. Higher U.S. selling prices also contributed as the Company raised prices in the second quarter of 2004 in an effort to partially pass raw material cost increases on to customers. Phthalic Anhydride's (PA) net sales were up $3.9 million, or 41 percent, due to higher selling prices that reflected passing raw material cost increases on to customers as well as a manufacturing fee increase to merchant market customers and to sales volume that improved 13 percent due largely to an improved domestic economy. Polyurethane systems net sales improved $1.6 million, or 35 percent, on sales volume that increased 39 percent due primarily to the growth in business with a customer first acquired during the second quarter of 2003.

Despite the sales volume and net sales dollar increases, polymers 2004 second quarter operating income decreased $0.9 million, or 17 percent, from 2003 second quarter operating income. Gross profit declined $0.6 million, or seven percent, for the same period. Polyurethane polyols accounted for the decline in gross profit, as 2004 second quarter results were down $1.1

million, or 18 percent, from 2003 second quarter results. Second quarter 2004 selling price increases did not keep pace with rising global raw material costs, which reflected a short supply of diethylene glycol (a major raw material for polyurethane polyols) and higher costs for orthoxylene (a petroleum-based raw material used in the manufacture of PA, which is a component of polyurethane polyols). Additional increases in raw material costs are expected. Selling price increases were announced effective July 1, 2004, in an effort to recoup some of the business's lost profit margin. Gross profit for PA improved $0.3 million, or 20 percent, due to higher sales volume coupled with the previously mentioned second quarter 2004 manufacturing fee increase. Gross profit for polyurethane systems increased $0.2 million, or 22 percent, due to the impact higher sales volume, which was partially offset by rising raw material costs. Operating expenses were up $0.3 million, or 11 percent from quarter to quarter, due to $0.1 million increases for both domestic marketing and research and development expenses and to $0.1 million of expense related to the new German facility that commenced operations in the third quarter of 2003.

Specialty Products

Net sales for the second quarter of 2004 were $6.6 million, a $0.2 million, or three percent, increase from the $6.4 million reported in the second quarter of 2003. Operating income increased $0.1 million, or five percent, to $1.7 million for the second quarter of 2004 from $1.6 million for the same quarter of 2003. Sales volume for food and flavoring applications were up slightly from quarter to quarter, while sales volume of pharmaceutical applications remained flat.

Corporate Expenses

Corporate expenses, which primarily include corporate administrative (including legal and environmental expenses) and corporate manufacturing expenses that are not allocated to the reportable segments, increased $0.8 million, or nine percent, to $9.4 million in the second quarter of 2004 from $8.6 million in the second quarter of 2003. A $0.8 million increase in deferred compensation expense arising from an increase in the price of the Company's stock used to compute changes in deferred compensation accounted for a part of the corporate expense increase. In addition, 2003 second quarter expenses were reduced by a $1.0 million recovery of settlement costs related to an old legal case. The foregoing increases were partially offset by a $0.5 million reduction in environmental remediation costs, as the prior year's second quarter expenses included an increase in reserve requirements related to a contractual obligation for shared cleanup costs at a formerly owned site.

Six Months Ended June 30, 2004 and 2003

Summary

Net income for the first half of 2004 increased $0.8 million, or 11 percent, to $7.8 million, or $0.81 per diluted share, compared to $7.0 million, or $0.72 per diluted share, for the first half of 2003. Below is a summary discussion of the major factors leading to the year-to-year improvement in net income. A detailed discussion of first half 2004 segment operating performance follows the summary.

Consolidated net sales increased $70.2 million, or 18 percent, to $457.7 million for the first half of 2004 from $387.5 million for the first half of 2003. The effect of foreign currency translation, which reflected the strengthening of the European euro, British pound sterling and Canadian dollar against the U.S. dollar, contributed $12.5 million of the increase in consolidated net sales. All three segments reported year-to-year increases in net sales dollars. Surfactants segment net sales were up $44.9 million, or 14 percent, due to higher selling prices, favorable foreign currency translation, improved sales mix and increased sales volumes for foreign operations. Net sales for the polymers segment increased $23.0 million, or 37 percent, due primarily to higher sales volume and higher selling prices. The specialty products segment reported a $2.3 million, or 19 percent, increase in net sales due to higher sales volumes of food ingredient and pharmaceutical products.

Operating income was up $2.5 million, or 20 percent, to $15.1 million for the first half of 2004 from $12.6 million for the same period of 2003. All three segments reported operating incomes that exceeded prior year results. However, rising raw material costs continued to have a negative effect on operating income, particularly for the surfactants and polymers segments. Operating expenses, which include marketing, administrative and research and development expenses, increased $2.3 million, or five percent, to $45.0 million for the first half of 2004 from $42.7 million for the first half of 2003. Compensation expense related to the Company’s deferred compensation plans was $0.6 million for the first half of 2004 compared to $0.3 million of income for the same period of 2003, which caused a $0.9 million unfavorable swing in operating expenses. Increases in the value of the Company’s stock and the mutual fund assets tied to the deferred compensation plan led to the 2004 expense. In addition, the prior year included a $1.0 million recovery of settlement costs related to an old legal case, which reduced 2003 expenses. Approximately $0.9 million of the operating expense increase was due to the negative effects of foreign currency translation. The foregoing items were partially offset by a $0.5 million reduction in environmental remediation costs.

Interest expenses declined $0.4 million, or nine percent, between years due to a higher proportion of bank debt, which carries lower interest rates than the Company’s long-term notes. Lower average debt levels also contributed to the decline.

Foreign exchange and other, net, which includes foreign exchange gains and losses and investment-related income and expense, was $0.8 million of expense in the first half of 2004 compared to $1.1 million of income in the first half of 2003, resulting in a $1.9 million unfavorable swing in expense. Foreign exchange losses accounted for the current year results compared to foreign exchange gains for the same period of last year.

The effective tax rate was 31.9 percent for the six months ended June 30, 2004, compared to 33.5 percent for the six months ended June 30, 2003. The lower effective tax rate was primarily attributable to a tax benefit realized on a $2.8 million charitable contribution of intellectual property and state tax benefits realized on amended tax returns. These benefits were partially offset by tax provided on a $2.0 million dividend received from the Company’s Philippine joint venture.

Segment Results

(Dollars in thousands)	Surfactants	Polymers	Specialty Products	Segment Results	Corporate	Total
For the six months ended June 30, 2004						
Net sales	$ 357,416	$ 85,888	$ 14,430	$ 457,734	—	$ 457,734
Operating income	18,783	8,214	4,411	31,408	(16,290)	15,118
For the six months ended June 30, 2003						
Net sales	$ 312,524	$ 62,895	$ 12,090	$ 387,509	—	$ 387,509
Operating income	16,936	7,804	2,878	27,618	(15,066)	12,552

Surfactants

Surfactants net sales for the first half of 2004 increased $44.9 million, or 14 percent, over net sales for the first half of 2003. Approximately $11.3 million of the increase was attributable to the favorable effects of foreign currency translation, due particularly to the strengthening euro, British pound sterling and Canadian dollar against the U.S. dollar. The current year also includes six months of Stepan UK financial results compared to five months of financial results for the prior year, as improvements resulting from the enterprise resource planning (ERP) system implementation for Stepan UK in the fourth quarter of 2003 allowed Stepan UK to report its quarterly results without a one-month lag. Excluding the effects of foreign currency translation and the additional month for Stepan UK, net surfactant sales increased $27.1 million. Net sales for foreign operations increased $11.7 million on a 12 percent volume increase. The Company's European and Mexican operations accounted for the improvement in foreign operations' net sales, reporting increases of $7.4 million and $4.7 million, respectively. Sales volume for European operations increased 14 percent due to increases across all major product lines. Sales volume for Mexican operations increased 38 percent due to an increase in fabric softener sales volume, which contributed $3.6 million of Mexico's year-to-year net sales increase. Domestic net sales increased $15.4 million, or seven percent, on sales volume that declined two percent. Second quarter 2004 price increases, effected for the purpose of passing on raw material price increases, and a change in sales mix compensated for the reduced sales volume and led to the rise in net sales. The decline in domestic sales volume, particularly in the first quarter of 2004, was due principally to the loss of business from two large customers who moved previously outsourced production into internal production facilities. The effect of the lost business was mitigated by the culmination of small to moderate sales volume gains for numerous Company product lines. The additional sales volume carried higher average selling prices than the business that was lost.

Surfactants operating income for the first half of 2004 increased $1.8 million, or 11 percent, over operating income reported for the first half of 2003. Surfactants operating income included approximately $0.2 million related to the extra month of Stepan UK's results in the first half of 2004. Gross profit increased $1.6 million, or four percent, to $44.4 million for the first half of 2004 from $42.8 million for the first half of 2003. Excluding the effects of foreign currency translation and the additional month of Stepan UK, surfactants gross profit declined

$0.2 million, to $42.6 million. Domestic gross profit was up $0.2 million, or one percent, due to the previously noted selling price increases and sales mix change, the effects of which were largely offset by higher raw material costs. Excluding the effects of foreign currency translation and the additional month of Stepan UK, gross profit for foreign operations fell $0.4 million to $12.7 million for the first half of 2004 from $13.1 million for the first half of 2003. The drop in foreign operations gross profit reflected the continued negative effect of higher raw material costs. First half 2004 operating expenses decreased $0.3 million, or one percent, from first half 2003 operating expenses. Domestic expenses declined $0.8 million from year to year as marketing expenses and research expenses were down $0.5 million and $0.3 million, respectively. Marketing expenses fell due to reductions in many areas including salaries, travel and entertainment, equipment rental and advertising and promotion expenses. Research expenses were down due primarily to a greater allocation of resources required for the other segments. Expenses for foreign operations were up $0.5 million due to the unfavorable impact of foreign currency translation.

Polymers

Polymers net sales increased $23.0 million, or 37 percent, from year to year. A 21 percent increase in sales volume, higher prices, due primarily to partially passing raw material cost increases to customers, and $1.3 million of favorable foreign currency translation on European sales all led to the increase in net sales. Within the polymers segment, polyurethane polyols net sales, excluding the effect of foreign currency translation, increased $10.9 million, or 29 percent, on sales volume that grew 22 percent due primarily to additional domestic volume resulting from the improved economy and to an increased share of the growing European laminate board market. Higher selling prices also contributed as the Company benefited from a second quarter 2004 increase in selling prices, which passed a portion of raw material cost increases on to customers. PA’s net sales were up $7.9 million, or 45 percent, due to higher selling prices that reflected passing raw material cost increases on to customers as well as a second quarter 2004 manufacturing fee increase to merchant market customers and to sales volume that improved 18 percent. Increased demand from an improved economy drove the higher volume. Polyurethane systems net sales improved $2.9 million, or 36 percent, on sales volume that increased 42 percent due primarily to increased business with a customer that was first acquired during the second quarter of 2003.

Polymers operating income for the first half of 2004 increased $0.4 million, or five percent, over operating income for the first half of 2003. Gross profit was up $0.6 million, or five percent, from year to year. All businesses reported 2004 first half gross profit that exceeded 2003 first half gross profit. Gross profit for polyurethane systems grew $0.3 million, or 20 percent, due to the impact of higher sales volume, which was partially offset by rising raw material costs. Gross profit for polyurethane polyols increased $0.2 million, or two percent, due to the 22 percent increase in sales volume and the benefit of internal production at the Company’s European polyurethane polyol plant, which commenced operations in July 2003. Prior to July 2003, the Company outsourced most of its production of polyurethane polyols for the European market. Continued rising diethylene and orthoxylene costs negatively impacted the effect of increased sales volume. As noted in the quarter-to-quarter discussion, it is expected that raw material costs will continue to increase. As a result, selling price increases were announced effective July 1, 2004, in an effort to recoup some of the business lost profit margin. Gross profit for PA increased $0.1

million, or four percent, due to improved sales volume partially offset by the effects of higher raw material costs, which were particularly detrimental in the first quarter of the current year. Polymer operating expenses for the first half of 2004 were $0.2 million, or four percent, higher than operating expenses for the first half of 2003. Excluding the unfavorable effect of foreign currency translation, operating expenses were up $0.1 million from year to year due to operating expenses for the German polyol facility that did not exist at this time last year.

Specialty Products

Net sales for the first half of 2004 were $14.4 million, a $2.3 million, or 19 percent, increase from the $12.1 million reported in the prior year's first half. Operating income increased $1.5 million to $4.4 million for the first half of 2004 from $2.9 million for the first half of 2003. The net sales and operating income gains reflected increased volumes for food ingredient and pharmaceutical applications. Operating expenses increased $0.2 million, or 15 percent, primarily due to a higher allocation of research resources to support the business.

Corporate Expenses

Corporate expenses, which primarily include corporate administrative (including legal and environmental expenses) and corporate manufacturing expenses that are not allocated to the reportable segments, increased $1.2 million, or eight percent, to $16.3 million in the second quarter of 2004 from $15.1 million in the second quarter of 2003. A $0.9 million increase in deferred compensation expense accounted for a part of the corporate expense increase. Deferred compensation expense was $0.6 million for the first half of 2004 compared to $0.3 million of income for the same period of 2003. Increases in the value of the Company's stock and the mutual fund assets tied to the deferred compensation plan led to the 2004 expense. In addition to the change in deferred compensation expense, expenses in 2003 were favorably affected by a $1.0 million recovery of settlement costs related to an old legal case. Corporate expenses were favorably affected by a $0.5 million reduction in environmental remediation costs, as the prior year's first half expenses included an increase in reserve requirements related to a contractual obligation for shared cleanup costs at a formerly owned site.

LIQUIDITY AND CAPITAL RESOURCES

Net cash from operating activities totaled $7.2 million for the first six months of 2004, compared to $20.4 million for the same period in 2003. The decrease of $13.2 million resulted mainly from higher working capital requirements in 2004. Working capital consumed $20.3 million for the first half of 2004, compared to $8.4 million for the comparable period last year, an increase of $11.9 million.

Accounts receivable increased by $39.5 million since December 31, 2003 versus $18.6 million for the comparable prior year period, driven mainly by higher sales both within and outside the U.S. Inventories decreased by $6.4 million for the first half of 2004 compared to an increase of $1.3 million for the same period in 2003. Accounts payable and accrued liabilities were a $12.7 million cash source in 2004 versus a $11.1 million cash source in 2003.

Capital expenditures for the current year to date have totaled $13.2 million, compared to $18.5 million for the first half of 2003. Capital spending for the full year is expected to be in the range of $32.0 million to $36.0 million.

Total Company debt increased by $9.4 million for the first six months of 2004, from $115.7 million to $125.1 million, as borrowings were used to finance working capital. The ratio of long-term debt to long-term debt plus shareholders' equity was 39.3 percent at June 30, 2004, compared to 36.2 percent as of December 31, 2003.

The Company maintains contractual relationships with its U.S. banks that provide for revolving credit of up to $60 million, which may be drawn upon as needed for general corporate purposes through May 2, 2007 under a revolving credit agreement. As of June 30, 2004 there were borrowings totaling $16.7 million under this agreement. The Company also meets short-term liquidity requirements through uncommitted domestic bank lines of credit.

The Company's foreign subsidiaries maintain bank term loans and short-term bank lines of credit in their respective countries to meet working capital requirements as well as to fund capital expenditure programs and acquisitions. As of June 30, 2004 the Company's foreign subsidiaries had unused borrowing capacity of approximately $8.5 million, mostly in local currencies, under their short-term bank lines of credit.

The Company is in compliance with all of its loan agreements.

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

PENSION FUNDING

As disclosed in its Form 10-K for the year ended December 31, 2003, the Company expected to contribute $3,841,000 to its U.S. qualified pension plans and to pay $117,000 related to its unfunded non-qualified plans in 2004. In April 2004, pension relief legislation was signed into law; as a result, the Company now expects to contribute $1,574,000 to its U.S. qualified pension plans in 2004. The original estimate for the unfunded non-qualified plans is unchanged. As of June 30, 2004, $482,000 had been contributed to the qualified plans and $75,000 had been paid related to the non-qualified plans.

OUTLOOK

The Company expects that new commercial opportunities and an improving economy should lead to second half 2004 sales volume that is higher than sales volume for the second half of 2003. Higher crude oil prices continue to drive up raw material costs that the Company must recover in the market place. Selling price increases were announced effective July 1, 2004, for surfactants and for polyurethane polyols. The Company expects further margin recovery and earnings growth during the balance of the year. It is anticipated that 2004 earnings will continue to show improvement over 2003.

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. Recurring costs associated with the operation and maintenance of facilities for waste treatment and disposal and managing environmental compliance in ongoing operations at our manufacturing locations were approximately $4.0 million and $3.9 million for the first six months of 2004 and 2003, respectively. 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 21 waste disposal sites where cleanup costs have been or may be incurred under CERCLA 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. It is the Company's accounting policy to record liabilities when environmental assessments and/or remediation 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, the minimum amount within the range 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 remediation plans. Because reported liabilities are recorded based on estimates, actual amounts could differ from those estimates. After partial remediation payments at certain sites, the Company has estimated a range of possible environmental and legal losses from $8.7 million to $40.7 million at June 30, 2004. At June 30, 2004 and December 31, 2003, the Company's reserve was $18.9 million and $19.6 million, respectively, for legal contingencies and environmental matters. During the first six months of 2004, non-capital cash payments related to legal and environmental matters, including payments to legal counsel, approximated $2.8 million compared to $1.1 million for the first six months of 2003.

For certain sites, estimates cannot be made of the total costs of compliance or the Company's share of such costs; accordingly, the Company is unable to predict the effect thereof on future results of operations. In the event of one or more adverse determinations in any annual or interim period, the impact on the Company's financial position, cash flows or 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 1, Part 2, Legal Proceedings, in this report and in other filings of the Company with the Securities and Exchange Commission, which are available upon request from the Company. See also Note 4, Contingencies, in the Notes to Consolidated Financial Statements for a summary of the environmental proceedings related to certain environmental sites.

OTHER

Except for the historical information contained herein, the matters discussed in this document are forward looking statements that involve risks and uncertainties. The results achieved this quarter are not necessarily an indication of future prospects for the Company. Actual results in future quarters may differ materially. Potential risks and uncertainties include, among others, fluctuations in the volume and timing of product orders, changes in demand for the Company’s products, the ability to pass on raw material price increases, changes in technology, continued competitive pressures in the marketplace, outcome of environmental contingencies, availability of raw materials, foreign currency fluctuations and the general economic conditions.

Item 3 – Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes in the Company's market risks since December 31, 2003.

Item 4 – Controls and Procedures

a. Evaluation of Disclosure Controls and Procedures

Based on their evaluation of our disclosure controls and procedures as of the end of the period covered by this Form 10-Q, our Chief Executive Officer and our acting Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934) are effective.

b. Changes in Internal Control Over Financial Reporting

There were no significant changes in internal controls that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II OTHER INFORMATION

Item 1 - Legal Proceedings

Maywood, New Jersey, Site

The Company’s site in Maywood, New Jersey and property formerly owned by the Company adjacent to its current site, were listed on the National Priorities List in September 1993 pursuant to the provisions of the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA) because of certain alleged chemical contamination. Pursuant to an Administrative Order on Consent entered into between the United States Environmental Protection Agency (USEPA) and the Company for property formerly owned by the Company, and the issuance of an order by USEPA to the Company for property currently owned by the Company, the Company completed a Remedial Investigation Feasibility Study (RI/FS) in 1994. The Company submitted the Draft Final FS for Soil and Source Areas (Operable Unit 1) in September 2002. In addition, the Company submitted the Draft Final FS for Groundwater (Operable Unit 2) in June 2003. Discussions between USEPA and the Company regarding the chemical remediation are continuing. The Company is awaiting the issuance of a Record of Decision (ROD) from USEPA relating to the currently owned and formerly owned Company property and the proposed remediation. The final ROD will be issued sometime after a public comment period.

In 1985, the Company entered into a Cooperative Agreement with the United States of America represented by the Department of Energy (Agreement). Pursuant to this Agreement, the Department of Energy (DOE) took title to radiological contaminated materials and was to remediate, at its expense, all radiological waste on the Company’s property in Maywood, New Jersey. The Maywood property (and portions of the surrounding area) were remediated by the DOE under the Formerly Utilized Sites Remedial Action Program, a federal program under which the U.S. Government undertook to remediate properties which were used to process radiological material for the U.S. Government. In 1997, responsibility for this clean-up was transferred to the United States Army Corps of Engineers (USACE). On January 29, 1999, the Company received a copy of a USACE Report to Congress dated January 1998 in which the USACE expressed their intention to evaluate, with the USEPA, whether the Company and/or other parties might be responsible for cost recovery or contribution claims related to the Maywood site. Subsequent to the issuance of that report, the USACE advised the Company that it had requested legal advice from the Department of Justice as to the impact of the Agreement.

By letter dated July 28, 2000, the Department of Justice advised the Company that the USACE and USEPA had referred to the Justice Department claims against the Company for response costs incurred or to be incurred by the USACE, USEPA and the DOE in connection with the Maywood site and the Justice Department stated that the United States is entitled to recovery of its response costs from the Company under CERCLA. The letter referred to both radiological and non-radiological hazardous waste at the Maywood site and stated that the United States has incurred unreimbursed response costs to date of $138 million. Costs associated with radiological waste at the Maywood site, which the Company believes represent all but a small portion of the amount referred to in the Justice Department letter, could be expected to aggregate substantially in excess of that amount. In the letter, the Justice Department invited the Company to discuss settlement of the matter in order to avoid the need for litigation. The Company believes that its liability, if any, for such costs has been resolved by the aforesaid Agreement. Despite the fact that the Company continues to believe that it has no liability to the United States for such costs, discussions with the Justice Department are currently ongoing to attempt to resolve this matter.

The Company believes it has adequate reserves for claims associated with the Maywood site, and has recorded a liability for the estimated probable costs it expects to incur at the site related to remediation of chemical contamination. However, depending on the results of the ongoing discussions regarding the Maywood site, particularly radiological contamination, the final cost of the remediation could differ from the current estimates.

Ewan and D'Imperio Sites

The Company has been named as a potentially responsible party (PRP) in the case *USEPA v. Jerome Lightman* (92 CV 4710 D. N. J.), which involves the Ewan and D'Imperio Superfund Sites located in New Jersey. Trial on the issue of the Company's liability at these sites was completed in March 2000. The Company is awaiting a decision from the court. If the Company is found liable at either site, a second trial as to the Company's allocated share of clean-up costs at these sites will be held. The Company believes it has adequate defenses to the issue of liability. In the event of an unfavorable outcome related to the issue of liability, the Company believes it has adequate reserves. On a related matter, the Company has filed an appeal to the United States Third Circuit Court of Appeals objecting to the lodging of a partial consent decree in favor of the United States Government in this action. Under the partial consent decree, the government recovered past costs at the site from all PRPs including the Company. The Company paid its assessed share but by objecting to the partial consent decree, the Company is seeking to recover back the sums it paid.

Regarding the D'Imperio Superfund Site, USEPA previously indicated it would seek penalty claims against the Company based on the Company's alleged noncompliance with the modified Unilateral Administrative Order (Order). The Company entered into a Consent Decree with USEPA, which resolves all claims asserted against the Company for the alleged noncompliance with the Order. Following the requisite notice and comment period, the Company expects the Consent Decree to be entered by the court in 2004. The payment due under the Consent Decree will not have a material impact on the financial position, results of operations or cash flows of the Company. In addition, the Company received notice from the New Jersey Department of Environmental Protection (NJDEP) dated March 21, 2001, that NJDEP will pursue cost recovery against the alleged responsible parties, including the Company. The NJDEP's claims include costs related to remediation of the D'Imperio Superfund Site in the amount of $434,406 and alleged natural resource damages in the amount of $529,584 (as of November 3, 2000). The NJDEP settled such claims against the alleged responsible parties, resulting in the Company paying its portion ($83,061) in July 2002. This payment is subject to reallocation after the allocation phase of the above-identified trial, if any. Also, USEPA issued a Unilateral Administrative Order dated November 5, 2003, directed to all PRPs to perform certain remedial activities at the D'Imperio Superfund Site. The cost for all PRPs for this work is estimated to be $300,000 to $450,000. The Company would be responsible for its allocated share of these costs. The amount due by the Company will not have a material impact on the financial position, results of operations or cash flows of the Company.

Wilmington Site

The Company has received two Requests for Information from the Commonwealth of Massachusetts Department of Environmental Protection relating to the Company's formerly-owned site at 51 Eames Street, Wilmington, Massachusetts, the most recent of which was in October 2002. The Company's response to the October 2002 request was filed in December 2002. Remediation at this site is being managed by its current owner to whom the Company sold the property in 1980. The Company subsequently entered into an agreement with the current owner whereby the Company is obligated to contribute to the response costs associated with this site once total site remediation costs exceed certain levels. In July 2003, the Company received a notice that contribution levels had been reached and a demand for payment from the current owner as to the Company's outstanding share of environmental response costs incurred to-date ($0.9 million) is due under the terms of the agreement. The Company evaluated the current owner's demand for payment and paid the current owner $0.9 million in two installments in March 2004 and April 2004. In July 2004, the Company received a demand for payment from the current owner requesting payment for the first and second quarters of 2004. The total amount owed is approximately $67,000. The Company is currently evaluating this most recent demand for payment. Under the agreement, the Company is obligated to contribute up to five percent of future response costs associated with this site with no limitation on the ultimate amount of contributions. The Company has recorded a reserve of $0.7 million for current and future claims associated with this site. However, depending on the ultimate cost of the remediation at this site, the amount for which the company is liable could differ from the current estimates. In addition, the Company and other prior owners entered into an agreement in April 2004 waiving certain statute of limitations defenses for claims which may be filed by the Town of Wilmington, Massachusetts, in connection with this site. While the Company has denied any liability for any such claims, the Company agreed to this waiver while the parties continue to discuss the resolution of any potential claim, which may be filed.

Lightman Drum Site

The Company received a Section 104(e) Request for Information from USEPA dated March 21, 2000, regarding the Lightman Drum Company Site located in Winslow Township, New Jersey. The Company responded to this request on May 18, 2000. In addition, the Company received a Notice of Potential Liability and Request to Perform RI/FS dated June 30, 2000, from USEPA. The Company has decided that it will participate in the performance of the RI/FS. However, based on the current information known regarding this site, the Company is unable to predict what its liability, if any, will be for this site.

Liquid Dynamics Site

The Company received a General Notice of Potential Liability letter from USEPA dated October 18, 2002, regarding the Liquid Dynamics Site located in Chicago, Illinois. The Company submitted a response to USEPA on November 5, 2002, stating that it is interested in negotiating a resolution of its potential responsibility at this site. In addition, the Company recently joined the PRP group. Based on the fact that the Company believes it is de minimis at this site, the Company believes that a resolution of its liability at this site will not have a material impact on the financial position, results of operations or cash flows of the Company.

Martin Aaron Site

The Company received a Section 104(e) Request for Information from USEPA dated June 2, 2003, regarding the Martin Aaron Site located in Camden, New Jersey. The Company's response was submitted on August 11, 2003. In addition, the Company and other PRPs received a Notice of Potential Liability and Demand for Reimbursement of Costs Expended at this site dated June 9, 2004. The Company and other PRPs have requested an extension until August 27, 2004, to file their response. The Company continues to investigate this matter and therefore, cannot predict what its liability, if any, will be for this site.

Wells G & H Superfund Site

The Company received a Section 104(e) Request for Information from USEPA dated December 15, 2003, regarding the Wells G & H Superfund Site located in Woburn, Massachusetts. The Company's response was submitted on March 18, 2004. The Company continues to investigate this matter and therefore, cannot predict what its liability, if any, will be for this site.

Bottle House Site

The Company received a notice from the Pennsylvania Department of Environmental Protection dated June 23, 2004, regarding the Bottle House Site located in City of Allentown, Lehigh County, Pennsylvania. A response to this notice is due on or about August 16, 2004. The Company is currently investigating this matter, and therefore, cannot predict what its liability, if any, will be for this site.

Item 2 - Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

Below is a summary by month of share purchases by the Company during the first six months of 2004:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January	—	—	N/A	N/A
February	—	—	N/A	N/A
March	8,649 (a)	$ 22.34	N/A	N/A
April	56,774 (a)	$ 23.90	N/A	N/A
May	—	—	N/A	N/A
June	—	—	N/A	N/A

(a) Reflects shares of the Company’s common stock, owned by employees for more than six months, which were tendered by employees in lieu of cash when exercising stock options.

Item 6 – Exhibits and Reports on Form 8-K

(a)	Exhibit (4)t(1)	–	Copy of Second Amendment dated as of May 3, 2004, to Amended 1993 Note Agreement, Amended 1995 Note Agreement, Amended 1998 Note Agreement and 2002 Note Purchase Agreement
(b)	Exhibit 31.1	–	Certification of Chairman and Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a)/15d-14(a)
(c)	Exhibit 31.2	–	Certification of Vice President and Corporate Controller pursuant to Exchange Act Rule 13a-14(a)/15d-14(a)
(d)	Exhibit 32	–	Certification pursuant to 18 U.S.C. Section 1350

(e) Reports on Form 8-K

Form 8-K, which was filed on July 22, 2004, included a press release, which provided certain information with respect to the Company’s financial results for the second quarter ended June 30, 2004.

SIGNATURES

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

STEPAN COMPANY

/s/ James E. Hurlbutt

Vice President and Corporate Controller

Date: August 5, 2004

STEPAN COMPANY

SECOND AMENDMENT
Dated as of May 3, 2004

to:

AMENDED 1993 NOTE AGREEMENT

AMENDED 1995 NOTE AGREEMENT

AMENDED 1998 NOTE AGREEMENT
and
2002 NOTE PURCHASE AGREEMENT

Each as described herein

SECOND AMENDMENT

THIS SECOND AMENDMENT, dated as of May 3, 2004 (the *"Second Amendment"*), to each of the Outstanding Agreements (as defined below) is among STEPAN COMPANY, a Delaware corporation (the *"Company"*), and each of the institutions which is a signatory to this Second Amendment (collectively, the *"Noteholders"*).

RECITALS:

A. The Company and the Noteholders have heretofore entered into the various Note Agreements described on the attached **Schedule A** (each as amended by the First Amendment, dated as of February 27, 2004, but effective as of December 31, 2003, collectively, the *"Outstanding Agreements"*), pursuant to which the Company issued its Notes as described on said **Schedule A** (collectively, the *"Notes"*). The Notes which are presently outstanding are hereafter referred to as the *"Outstanding Notes."*

B. The Company and the Noteholders now desire to amend the Outstanding Agreements in the respects, but only in the respects, hereinafter set forth.

C. Capitalized terms used herein shall have the respective meanings ascribed thereto in the Outstanding Agreements unless herein defined or the context shall otherwise require.

D. All requirements of law have been fully complied with and all other acts and things necessary to make this Second Amendment a valid, legal and binding instrument according to its terms for the purposes herein expressed have been done or performed.

NOW, THEREFORE, upon the full and complete satisfaction of the conditions precedent to the effectiveness of this Second Amendment set forth in **Section 3.1** hereof, and in consideration of good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, the Company and the Noteholders do hereby agree as follows:

SECTION 1. SECOND AMENDMENT.

Section 1.1. Section 11(l) of each of the Outstanding Agreements shall be and is hereby amended in its entirety to read as follows:

"(l) (i) if the aggregate Unfunded Liabilities for all Plans combined shall exceed $5,000,000, or (ii) if (A) any Plan shall fail to satisfy the minimum funding standards of ERISA or the Code for any plan year or part thereof or a waiver of such standards or extension of any amortization period is sought or granted under Section 412 of the Code, (B) a notice of intent to terminate any Plan shall have been or is reasonably expected to be filed with the PBGC or the PBGC shall have instituted proceedings under ERISA Section 4042 to terminate or appoint a trustee to administer any Plan or the PBGC shall have notified the Company or any ERISA Affiliate that a Plan may become a subject of any such proceedings, (C) the Company or any ERISA Affiliate shall have incurred or is reasonably expected to incur any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, (D) the Company or any ERISA Affiliate withdraws from any Multiemployer Plan, or (E) the Company or any Subsidiary establishes or amends any employee welfare benefit plan that provides post-employment welfare benefits in a manner that would increase the liability of the Company or any Subsidiary thereunder, and any such event or events described in subclauses (A) through (E) of this clause (ii), either individually or together with any other such event or events, could reasonably be expected to have a Material Adverse Effect."

Section 1.2. The defined term "Funded Indebtedness", as such term appears in Schedule B of each of the Outstanding Agreements, shall be and is hereby amended in its entirety to read as follows:

"*'Funded Indebtedness'* means all Indebtedness (including capitalized payment obligations under Capitalized Leases) which by its terms matures more than one year from the date as of which any calculation of Funded Indebtedness is made. Funded Indebtedness shall also include Unfunded Liabilities."

Section 1.3. Schedule B of each of the Outstanding Agreement shall be and is hereby amended to include the defined term "Unfunded Liabilities" which shall read as follows:

"*'Unfunded Liabilities'* means (i) in the case of Plans (other than Multiemployer Plans) the amount (if any) by which the present value of all vested nonforfeitable benefits under such Plan exceeds the fair market value of all Plan assets allocable to such benefits, all determined as of the then most recent valuation date for such Plan, and (ii) in the case of Multiemployer Plans, the withdrawal liability of the Company and Subsidiaries. The interest rate for computing the present value of all vested nonforfeitable benefits shall be the Valuation Liability Interest Rate, as indicated on Form 5500 Schedule B for such Plan. For purposes of this defined term 'Unfunded Liabilities' only, the term 'Plan' means an employee pension benefit plan which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Internal Revenue Code as to which the Company or any Subsidiary may have any liability."

SECTION 2. REPRESENTATIONS, WARRANTIES AND AGREEMENTS OF THE COMPANY.

Section 2.1. To induce the Noteholders to execute and deliver this Second Amendment, the Company represents and warrants to the Noteholders (which representations and warranties shall survive the execution and delivery of this Second Amendment) that:

(a) this Second Amendment has been duly authorized, executed and delivered by it and this Second Amendment, and each of the Outstanding Agreements as amended by this Second Amendment, constitute the legal, valid and binding obligations, contracts and agreements of the Company enforceable against it in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally;

(b) the execution, delivery and performance by the Company of this Second Amendment (i) has been duly authorized by all requisite corporate action and, if required, shareholder action, (ii) does not require the consent or approval of any governmental or regulatory body or agency, and (iii) will not (A) violate (1) any provision of law, statute, rule or regulation or its certificate of incorporation or bylaws, (2) any order of any court or any rule, regulation or order of any other agency or government binding upon it, or (3) any provision of any material indenture, agreement or other instrument to which it is a party or by which its properties or assets are or may be bound, or (B) result in a breach or constitute (alone or with due notice or lapse of time or both) a default under any indenture, agreement or other instrument referred to in clause (iii)(A)(3) of this **Section 2.1(b)**;

(c) as of the date hereof and after giving effect to this Second Amendment, no Default or Event of Default under any of the Outstanding Agreements has occurred which is continuing; and

(d) all of the representations and warranties contained in Section 5 of each of the Outstanding Agreements are true and correct in all material respects with the same force and effect as if made by the Company on and as of the date hereof, except that any representation or warranty made as of a specific date shall be deemed made as of such specific date.

Execution and delivery by the Company of this Second Amendment constitutes the certification by the Company that the foregoing representations and warranties are true and correct on and with respect to the date hereof.

SECTION3. CONDITIONS TO EFFECTIVENESS OF THIS SECOND AMENDMENT.

Section 3.1. This Second Amendment shall not become effective until, and shall become effective when, each and every one of the following conditions shall have been satisfied:

(a) executed counterparts of this Second Amendment, duly executed by the Company and the Required Holders of the Outstanding Notes under each Outstanding Agreement, shall have been delivered to the Noteholders; and

(b) the representations and warranties of the Company set forth in **Section 2** hereof are true and correct on and with respect to the date hereof.

Upon receipt of all of the foregoing, this Second Amendment shall become effective.

SECTION 4. PAYMENT OF NOTEHOLDERS' COUNSEL FEES AND EXPENSES.

Section 4.1. The Company agrees to pay upon demand, the reasonable fees and expenses of Chapman and Cutler LLP, counsel to the Noteholders, in connection with the negotiation, preparation, approval, execution and delivery of this Second Amendment.

SECTION 5. MISCELLANEOUS.

Section 5.1. This Second Amendment shall be construed in connection with and as part of each of the Outstanding Agreements, and except as modified and expressly amended by this Second Amendment, all terms, conditions and covenants contained in each of the Outstanding Agreements and each of the Outstanding Notes are hereby ratified and shall be and remain in full force and effect.

Section 5.2. Any and all notices, requests, certificates and other instruments executed and delivered after the execution and delivery of this Second Amendment may refer to the Outstanding Agreements without making specific reference to this Second Amendment but nevertheless all such references shall include this Second Amendment unless the context otherwise requires.

Section 5.3. The descriptive headings of the various Sections or parts of this Second Amendment are for convenience only and shall not affect the meaning or construction of any of the provisions hereof.

Section 5.4. This Second Amendment shall be governed by and construed in accordance with Illinois law.

Section 5.5. This Second Amendment may be executed in any number of counterparts, each executed counterpart constituting an original, but all together only one agreement.

[Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Second Amendment as of the date first written above

STEPAN COMPANY

By ______________________________

Name:
Title:

Accepted as of the date first written above:

CONNECTICUT GENERAL LIFE INSURANCE COMPANY (as Noteholder under the Amended 1998 Note Agreement and the 2002 Note Purchase Agreement)

By: CIGNA INVESTMENTS, INC. (authorized agent)

By ______________________________

Name:
Title:

J. ROMEO & CO.
(as Noteholder under the Amended 1993 Note Agreement, the Amended 1995 Note Agreement and the 2002 Note Purchase Agreement)

By ______________________________

Name:
Title:

[Second Amendment—Stepan Company]

THE NORTHWESTERN MUTUAL LIFE INSURANCE COMPANY (as Noteholder under the Amended 1993 Note Agreement, the Amended 1995 Note Agreement, the Amended 1998 Note Agreement and the 2002 Note Purchase Agreement)

By ______________________________

Name:
Title: Authorized Signatory

THE NORTHWESTERN MUTUAL LIFE INSURANCE COMPANY for its Group Annuity Separate Account (as Noteholder under the 2002 Note Purchase Agreement)

By ______________________________

Name:
Title: Authorized Signatory

THRIVENT FINANCIAL FOR LUTHERANS (f/k/a Aid Association for Lutherans) (as Noteholder under the Amended 1993 Note Agreement, the Amended 1995 Note Agreement and the 2002 Note Purchase Agreement)

By ______________________________

Name:
Title:

OUTSTANDING AGREEMENTS AND OUTSTANDING NOTES

1. The Amended and Restated Note Agreement dated as of December 1, 2002 among the Company and each of the institutional investors listed therein, as amended by the First Amendment, dated as of February 27, 2004, but effective as of December 31, 2003 (the *"Amended 1993 Note Agreement"*) pursuant to which the Company issued its 7.22% Amended and Restated Senior Notes, Series A, due April 1, 2008 and its 7.22% Amended and Restated Senior Notes, Series B, due August 1, 2008. The Amended 1993 Note Agreement amended and restated the separate Loan Agreements each dated as of April 1, 1993.

REGISTERED NOTEHOLDER	PRINCIPAL AMOUNT OF OUTSTANDING NOTES AS OF MAY 3, 2004
Thrivent Financial for Lutherans (f/k/a: Aid Association for Lutherans)	$500,000 - Series A $1,500,000 - Series B
J. ROMEO & CO.	$500,000 - Series A $1,500,000 - Series B
The Northwestern Mutual Life Insurance Company	$500,000 - Series A $1,500,000 - Series B

2. The Amended and Restated Note Agreement dated as of December 1, 2002 among the Company and each of the institutional investors listed therein, as amended by the First Amendment, dated as of February 27, 2004, but effective as of December 31, 2003 (the *"Amended 1995 Note Agreement"*) pursuant to which the Company issued its 7.69% Amended and Restated Senior Notes, Series A, due June 30, 2005 and its 7.77% Amended and Restated Senior Notes, Series B, due June 30, 2010. The Amended 1995 Note Agreement amended and restated the separate Loan Agreements each dated as of June 15, 1995.

REGISTERED NOTEHOLDER	PRINCIPAL AMOUNT OF OUTSTANDING NOTES AS OF MAY 3, 2004
Thrivent Financial for Lutherans (f/k/a: Aid Association for Lutherans)	$750,000 - Series A $6,136,365 - Series B
The Northwestern Mutual Life Insurance Company	$750,000 - Series A $6,136,365 - Series B
J. ROMEO & CO.	$500,000 - Series A $4,090,910 - Series B

3. The Amended and Restated Note Agreement dated as of December 1, 2002 among the Company and each of the institutional investors listed therein, as amended by the First Amendment, dated as of February 27, 2004, but effective as of December 31, 2003 (the *"Amended 1998 Note Agreement"*) pursuant to which the Company issued its 6.59% Amended and Restated Senior Notes due October 1, 2013. The Amended 1998 Note Agreement amended and restated the separate Loan Agreements each dated as of October 1, 1998.

REGISTERED NOTEHOLDER	PRINCIPAL AMOUNT OF OUTSTANDING NOTES AS OF MAY 3, 2004
The Northwestern Mutual Life Insurance Company	$18,181,818
CIG & Co. (as Nominee for Connecticut General Life Insurance Company)	$9,090,909

4. The Note Purchase Agreement dated as of September 10, 2002 among the Company and each of the institutional investors listed therein, as amended by the First Amendment, dated as of February 27, 2004, but effective as of December 31, 2003 (the *"2002 Note Purchase Agreement"*) pursuant to which the Company issued its 6.86% Senior Notes due September 1, 2015.

REGISTERED NOTEHOLDER	PRINCIPAL AMOUNT OF OUTSTANDING NOTES AS OF MAY 3, 2004
The Northwestern Mutual Life Insurance Company	$20,000,000
The Northwestern Mutual Life Insurance Company for its Group Annuity SeparateAccount	$1,000,000
Thrivent Financial for Lutherans	$3,000,000
CIG & Co. (as Nominee for Connecticut General Life Insurance Company)	$3,000,000
J. ROMEO & CO. (as Nominee for MONY Life Insurance Company)	$3,000,000

Exhibit 31.1

CERTIFICATION OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER
PURSUANT TO EXCHANGE ACT RULE 13a – 14(a)/15d-14(a)

I, F. Q. Stepan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Stepan Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and we have:
    - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    - (c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 5, 2004

/s/ F. Q. Stepan

Chairman and Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF VICE PRESIDENT AND CORPORATE CONTROLLER
PURSUANT TO EXCHANGE ACT RULE 13a – 14(a)/15d-14(a)

I, James E. Hurlbutt, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Stepan Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and we have:
    (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    (b) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    (c) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting.
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
    (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2004

/s/ James E. Hurlbutt

Vice President and Corporate Controller

Exhibit 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350

In connection with the Quarterly Report of Stepan Company (the “Company”) on Form 10-Q for the period ended June 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to such officer’s knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 5, 2004

/s/ F. Quinn Stepan

Name: F. Quinn Stepan
Title: Chairman and Chief Executive Officer

/s/ James E. Hurlbutt

Name: James E. Hurlbutt
Title: Vice President and Corporate Controller

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

A signed original of this certification has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.