
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported) July 23, 2003

STEPAN COMPANY

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other
Jurisdiction of Incorporation)

1-4462
(Commission
File Number)

36-1823834
(I.R.S. Employer
Identification No.)

Edens and Winnetka Road,
Northfield, Illinois
(Address of Principal Executive Offices)

60093
(Zip Code)

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

Item 7. Financial Statements, Pro Forma Financial Information and Exhibits.

(c) Exhibits

| <u>Exhibit Number</u> | <u>Description</u> |
|-----------------------|---|
| 99.1 | Press Release of Stepan Company dated July 23, 2003 |

Item 9. Regulation FD Disclosure and Item 12. Disclosure of Results of Operations and Financial Condition.

On July 23, 2003, Stepan Company (“Stepan”) issued a press release providing its financial results for the fiscal quarter ended June 30, 2003. A copy of the press release is attached as Exhibit 99.1 hereto and incorporated herein by reference.

SIGNATURE

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 hereunto duly authorized.

STEPAN COMPANY

By: /s/ KATHLEEN M. OWENS

Kathleen M. Owens
Assistant Secretary

Date: July 28, 2003

EXHIBIT INDEX

Exhibit Number

Description

99.1

Press Release of Stepan Company dated July 23, 2003

STEPAN REPORTS FIRST QUARTER RESULTS

NORTHFIELD, Illinois, July 23, 2003—Stepan Company (NYSE: SCL) today reported first quarter results for the period ended June 30, 2003.

Net sales for the second quarter of 2003 increased to \$200,429,000, up six percent from \$188,795,000 reported a year ago. Net earnings were \$4,760,000, or \$0.49 per diluted share, down 42 percent from \$8,217,000, or \$0.84 per diluted share in the second quarter of 2002. Sales volume was flat with most of the increase in net sales due to higher selling prices and increased reported European sales due to the translation effects of a weaker dollar after the euro's recent record high against the dollar. The effect of translation increased net sales for the quarter by \$5,679,000. The translation effect had a negligible impact on earnings due to weaker foreign results, which included an operating loss in Germany attributable to lower sales volume. While total sales volume was flat, sales of polyurethane polyol and fabric softener posted increases. Gross profit declined \$4.3 million, or 12 percent on lower margins, which led to a 42 percent drop in net income. Margins declined due to a weaker product mix and higher energy, freight and raw material costs.

Net sales for the first half of 2003 increased five percent to \$387,509,000, up from \$369,951,000. Year-to-date earnings declined 41 percent to \$7,048,000, or \$0.72 per diluted share, compared to \$12,027,000, or \$1.23 per diluted share in the prior year. Sales volume grew one percent with higher selling prices and translation effects comprising the rest of the increase in sales. The effect of translation increased year-to-date net sales by \$9,345,000 and had a negligible impact on earnings. Earnings declined on weaker margins and product mix.

“Sales mix and profit margins were less favorable than a year ago,” said F. Quinn Stepan, Chairman and Chief Executive Officer. “Selling price increases during the second quarter provided notable improvement in earnings over the weak first quarter of 2003. We continue our efforts to recover higher energy and raw material costs in the marketplace.”

Surfactant earnings declined on flat sales volume, weaker sales mix and lower margins. North America accounted for the majority of the surfactant earnings decline. Price increases implemented on April 1, 2003 provided margin improvement compared to the first quarter of 2003, but margins did not recover to the profitability achieved in the second quarter of 2002, in part due to weaker sales mix. European surfactant earnings declined on weaker sales volume in Germany and higher operating expenses due to translation effects and higher salaries, insurance and regulatory costs. Surfactants represented 79 percent of company revenues.

Polymer earnings improved on higher sales volume of polyurethane polyols coupled with some recovery in margins, particularly in Europe. Phthalic anhydride earnings declined due to lower volumes. Polyurethane systems posted improvement in earnings as a result of higher sales volume. Polymers represented 17 percent of Company revenues.

Specialty products earnings were down on lower volume of pharmaceutical applications due in part to an unusually strong customer volume in the prior year quarter. Specialty products represented four percent of Company revenues.

Operating expenses rose three percent. Marketing expenses increased 16 percent due to reallocation of salary costs from administrative to marketing upon completion of the system implementation project in 2002. Europe also contributed higher marketing expenses due to the stronger euro and British pound. Administrative expenses declined nine percent due to lower legal and consulting costs. Legal expenses were down due to a \$1.0 million pre-tax recovery of a previously paid legal settlement, which was partially offset by higher legal costs for another pending legal claim. Consulting costs declined \$0.9 million, primarily due to reduced system implementation costs. Deferred compensation expense rose \$0.2 million for the quarter, while on a year-to-date basis deferred compensation expenses declined by \$1.9 million. Research costs rose six percent due to higher salaries, maintenance and the effect of translation of European research costs.

Interest expense rose 16 percent due to higher average debt levels coupled with a higher proportion of fixed rate debt. The Company secured more fixed rate debt in 2002 to lock in low interest rates for the long term, although at a higher cost than current short term interest rates. Joint venture income declined due to lower royalty income.

“Although earnings are down from a year ago, we improved over the much weaker first quarter performance,” said Mr. Stepan. “We must achieve further margin improvement from raw material, energy and operational savings, while we also regain top line growth. We recently started up our new polyol reactor in Germany and commenced commercial production. Several fabric softener opportunities have also recently been commercialized in Europe and North America. Provided these efforts are successful, the second half of 2003 will show improvement over the second half of 2002.”

Stepan Company will host a conference call to discuss the second quarter results at 2 p.m. EDT this date, July 23, 2003. To listen to a live webcast of this call, please go to our Internet website at: www.stepan.com, click on investor relations, next click on conference calls and follow the directions on the screen.

Stepan Company, headquartered in Northfield, Illinois, is a leading producer of specialty and intermediate chemicals used in household, industrial, personal care, agricultural, food and insulation related products. The common and the convertible preferred stocks are traded on the New York and Chicago Stock Exchanges under the symbols SCL and SCLPR.

* * * * *

table follows

Information in this press release contains forward looking statements, which are not historical facts. These statements involve risks and uncertainties that could cause actual results to differ materially, including without limiting foreign currency fluctuations, prospects for our foreign

STEPAN COMPANY
Statements of Income
For the Three Months Ended March 31, 2003 and 2002
(Unaudited – 000's Omitted)

| | Three Months Ended March 31 | | |
|---|--------------------------------|-------------------|-------------|
| | 2003 | 2002 | % Change |
| Net Sales | \$ 187,080 | \$ 181,156 | +3 |
| Cost of Sales | 161,722 | 152,187 | +6 |
| Gross Profit | 25,358 | 28,969 | -12 |
| Operating Expenses: | | | |
| Marketing | 6,628 | 6,131 | +8 |
| Administrative | 7,375 | 9,403 | -22 |
| Research, development and technical services | 6,215 | 5,986 | +4 |
| | 20,218 | 21,520 | -6 |
| Operating Income | 5,140 | 7,449 | -31 |
| Other Income (Expense): | | | |
| Interest, net | (2,152) | (1,791) | +20 |
| Income from equity in joint venture | 452 | 488 | -7 |
| | (1,700) | (1,303) | +30 |
| Income Before Provision for Income Taxes | 3,440 | 6,146 | -44 |
| Provision for Income Taxes | 1,152 | 2,336 | -51 |
| Net Income | \$ 2,288 | \$ 3,810 | -40 |
| Net Income Per Common Share | | | |
| Basic | \$ 0.24 | \$ 0.41 | -41 |
| Diluted | \$ 0.23 | \$ 0.39 | -41 |
| Shares Used to Compute Net Income per Common Share | | | |
| Basic | 8,882 | 8,835 | +1 |
| Diluted | 9,082 | 9,740 | -7 |

STEPAN COMPANY
Balance Sheets
March 31, 2003 and December 31, 2002
(Unaudited – 000's Omitted)

| | 2003 March 31 | 2002 December 31 |
|--|-------------------|---------------------|
| <u>ASSETS</u> | | |
| Current Assets | \$ 204,443 | \$ 185,112 |
| Property, Plant & Equipment, net | 210,554 | 211,050 |
| Other Assets | 42,814 | 43,505 |
| Total assets | \$ 457,811 | \$ 439,667 |
| <u>LIABILITIES & STOCKHOLDERS' EQUITY</u> | | |
| Current Liabilities | \$ 112,728 | \$ 105,017 |
| Deferred Income Taxes | 19,678 | 20,065 |
| Long-term Debt | 113,841 | 104,304 |
| Other Non-current Liabilities | 52,171 | 51,452 |
| Stockholders' Equity | 159,393 | 158,829 |
| Total liabilities & Stockholders' equity | \$ 457,811 | \$ 439,667 |