

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

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FORM 10-Q

(MARK ONE)

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2000

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

1-4462

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

Yes X No

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

Class

Outstanding at October 31, 2000

-----  
Common Stock, \$1 par value

-----  
9,259,027 Shares

Part I FINANCIAL INFORMATION

Item 1 - Financial Statements

STEPAN COMPANY  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 September 30, 2000 and December 31, 1999  
 Unaudited

(Dollars in thousands)	9/30/00	12/31/99
	-----	-----
<b>ASSETS</b>		
-----		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 2,394	\$ 3,969
Receivables, net	101,942	97,089
Inventories (Note 2)	57,824	51,849
Deferred income taxes	9,361	9,361
Other current assets	4,819	4,392
	-----	-----
Total current assets	176,340	166,660
	-----	-----
<b>PROPERTY, PLANT AND EQUIPMENT:</b>		
Cost	610,932	596,904
Less: Accumulated depreciation	412,417	387,423
	-----	-----
Property, plant and equipment, net	198,515	209,481
	-----	-----
<b>OTHER ASSETS</b>		
	37,835	38,435
	-----	-----
Total assets	\$412,690	\$414,576
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
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<b>CURRENT LIABILITIES:</b>		
Current maturities of long-term debt	\$ 9,042	\$ 7,663
Accounts payable	49,159	48,676
Accrued liabilities	37,497	41,706
	-----	-----
Total current liabilities	95,698	98,045
	-----	-----
<b>DEFERRED INCOME TAXES</b>		
	41,782	41,975
	-----	-----
<b>LONG-TERM DEBT, less current maturities</b>		
	104,233	107,420
	-----	-----
<b>OTHER NON-CURRENT LIABILITIES</b>		
	12,906	12,072
	-----	-----
<b>STOCKHOLDERS' EQUITY:</b>		
5-1/2% convertible preferred stock, cumulative, voting without par value; authorized 2,000,000 shares; issued 772,704 shares in 2000 and 783,003 shares in 1999	19,318	19,575
Common stock, \$1 par value; authorized 30,000,000 shares; issued 9,789,357 shares in 2000 and 9,684,600 shares in 1999	9,789	9,685
Additional paid-in capital	12,848	11,909
Accumulated other comprehensive loss	(13,034)	(10,631)
Retained earnings (approximately \$51,665 unrestricted in 2000 and \$48,329 in 1999)	146,165	134,224
	-----	-----
	175,086	164,762
Less: Treasury stock, at cost	17,015	9,698
	-----	-----
Stockholders' equity	158,071	155,064
	-----	-----
Total liabilities and stockholders' equity	\$412,690	\$414,576
	=====	=====

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

STEPAN COMPANY  
CONSOLIDATED STATEMENTS OF INCOME  
For the Three and Nine Months Ended September 30, 2000 and 1999  
Unaudited

(In thousands, except per share amounts)

	Three Months Ended September 30		Nine Months Ended September 30	
	2000	1999	2000	1999
NET SALES	\$168,742	\$166,932	\$506,001	\$497,652
Cost of Sales	139,717	138,683	419,213	408,093
Gross Profit	29,025	28,249	86,788	89,559
Operating Expenses:				
Marketing	5,968	5,810	18,364	17,636
Administrative	5,933	15,187	18,011	26,732
Research, Development and Technical Services	5,238	5,624	16,696	16,411
	17,139	26,621	53,071	60,779
Operating Income	11,886	1,628	33,717	28,780
Other Income (Expense):				
Interest, Net	(2,099)	(2,052)	(6,336)	(6,320)
Income from Equity Joint Ventures	202	447	470	674
	(1,897)	(1,605)	(5,866)	(5,646)
Income Before Income Taxes	9,989	23	27,851	23,134
Provision for Income Taxes	3,756	9	10,722	9,022
NET INCOME	\$ 6,233	\$ 14	\$ 17,129	\$ 14,112
Net Income Per Common Share (Note 4):				
Basic	\$ 0.65	\$ (0.02)	\$ 1.76	\$ 1.40
Diluted	\$ 0.61	\$ (0.02)	\$ 1.67	\$ 1.32
Shares used to compute Net Income Per Common Share (Note 4):				
Basic	9,282	9,560	9,390	9,619
Diluted	10,152	9,881	10,282	10,671
Dividends per Common Share	\$ 0.1625	\$ 0.1500	\$ 0.4875	\$ 0.4500

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

STEPAN COMPANY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the Nine Months Ended September 30, 2000 and 1999  
Unaudited

(Dollars in thousands)	9/30/00 -----	9/30/99 -----
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net income	\$ 17,129	\$ 14,112
Depreciation and amortization	30,782	30,142
Deferred revenue recognition	(1,635)	(4,411)
Deferred income taxes	(230)	(1,005)
Environmental and legal liabilities	(47)	(1,488)
Other non-cash items	(1,085)	288
Changes in Working Capital:		
Receivables, net	(4,853)	(22,429)
Inventories	(5,975)	1,818
Accounts payable and accrued liabilities	(1,209)	18,843
Other	(427)	(233)
	-----	-----
Net Cash Provided by Operating Activities	32,450	35,637
	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Expenditures for property, plant and equipment	(19,213)	(24,877)
Other non-current assets	(222)	(631)
	-----	-----
Net Cash Used for Investing Activities	(19,435)	(25,508)
	-----	-----
<b>CASH FLOWS FROM FINANCING AND OTHER RELATED ACTIVITIES</b>		
Revolving debt and notes payable to banks, net	6,200	15,400
Other debt repayments	(8,008)	(10,643)
Purchase of treasury stock, net	(7,317)	(7,060)
Dividends paid	(5,188)	(4,972)
Stock option exercises	1,041	1,008
Other non-cash items	(1,318)	(210)
	-----	-----
Net Cash Used for Financing and Other Related Activities	(14,590)	(6,477)
	-----	-----
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(1,575)	3,652
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,969	983
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 2,394	\$ 4,635
	=====	=====
<b>CASH PAID DURING THE PERIOD FOR:</b>		
Interest	\$ 5,390	\$ 5,300
Income taxes	\$ 9,956	\$ 10,249

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

STEPAN COMPANY  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 September 30, 2000 and December 31, 1999  
 Unaudited

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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The condensed consolidated financial statements included herein have been prepared by the company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (although the balance sheet at 12/31/99 is condensed from the audited balance sheet at that date). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although management believes that the disclosures are adequate and make the information presented not misleading. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and the notes thereto included in the company's latest Annual Report to Stockholders and the Annual Report to the Securities and Exchange Commission on Form 10-K for the year ended December 31, 1999. In the opinion of management all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the consolidated financial position of Stepan Company as of September 30, 2000, and the consolidated results of operations for the three and nine months then ended and cash flows for the nine months then ended, have been included.

2. INVENTORIES  
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Inventories include the following amounts:

(Dollars in thousands)	9/30/00 -----	12/31/99 -----
Inventories valued primarily on LIFO basis -		
Finished products	\$36,586	\$32,729
Raw materials	21,238	19,120
	-----	-----
Total inventories	\$57,824 =====	\$51,849 =====

If the first-in, first-out (FIFO) inventory valuation method had been used for all inventories, inventory balances would have been approximately \$9,037,000 and \$10,600,000 higher than reported at September 30, 2000, and December 31, 1999, respectively.

3. CONTINGENCIES  
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There are a variety of legal proceedings pending against the company. Some of these proceedings may result in fines, penalties, judgments or costs being assessed against the company at some future time. The company's operations are subject to extensive local, state and federal regulations, including the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("Superfund") and the Superfund amendments of 1986. The company, and others, has been named as potentially responsible parties at affected geographic sites. As discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in

this filing, the company believes that it has made adequate provisions for the costs it may incur with respect to these sites. The company has estimated a range of possible environmental and legal losses from \$4.0 million to \$24.3 million at September 30, 2000. At September 30, 2000, the company's reserve was \$11.5 million for legal and environmental matters compared to \$11.6 million at December 31, 1999.

For certain sites, estimates of the total costs of compliance, or the company's share of such costs are subject to significant change due to inherited uncertainties of these estimates; accordingly, the company is unable to predict the effect thereof on future results of operations. In the event of one or more adverse determinations in any annual or interim period, the impact on results of operations for those periods could be material. However, based upon the company's present belief as to its relative involvement at these sites, other viable entities' responsibilities for cleanup and the extended period over which any costs would be incurred, the company believes that these matters will not have a material effect on the company's financial position. Certain of these matters are discussed in Item 3, Legal Proceedings, in the 1999 Form 10-K Annual Report, Item 1, Legal Proceedings, in this Form 10-Q, and in other filings of the company with the Securities and Exchange Commission, which are available upon request from the company.

Following are summaries of the environmental proceedings related to the company's Maywood, New Jersey, and Ewan and D'Imperio environmental sites:

Maywood, New Jersey, Site:  
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As reported previously, 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 Liabilities Act 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 the USEPA to the company for property currently owned by the company, the company has completed a Remedial Investigation Feasibility Study (RI/FS) in 1994. The company has been awaiting the issuance of a Record of Decision (ROD) from the USEPA which would relate to both the currently owned and formerly owned company property and would recommend the type of remediation required on each property. The company's understanding is that USEPA anticipates that it will issue a remedial action plan (the proposed ROD) in the fourth quarter of 2000 or the first quarter of 2001 with a public comment period to follow. The final ROD will be issued sometime after the public comment period.

In 1985, the company entered into a Cooperative Agreement with the United States of America represented by the Department of Energy (DOE) (Agreement). Pursuant to this Agreement, the DOE took title to radiological contaminated materials and was to remediate, at its expense, all radiological (byproduct material and source material) 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 Cooperative Agreement.

By letter dated July 28, 2000, the Department of Justice advised the company that the USACE and the 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 refers to both radiological and non-radiological hazardous waste at the Maywood site and states that the United States has incurred unreimbursed response costs to date of \$138.0 million. In the letter, the Justice Department invites the company to discuss settlement of the matter in order to avoid the need for litigation. Discussion with the Justice Department is currently ongoing to attempt to resolve this matter. The company has previously included potential claims for response costs associated with non-radiological waste at the Maywood Site in its estimated range of costs and its establishment of reserves for potential claims at various sites where it is a potentially responsible party (PRP) under CERCLA and the company believes such estimates and reserves are adequate to include claims associated with non-radiological waste at the Maywood Site. The company has not reflected in such estimates and such reserves any amount for 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 and could be expected to aggregate substantially in excess of that amount) because of its belief that its liability, if any, for such costs has been resolved by the aforesaid Cooperative Agreement. The company continues to believe that it has no liability to the United States for such radiological cleanup costs by reason of the aforesaid Cooperative Agreement and the company intends to assert that position vigorously in discussions with the Justice Department and, if necessary, in defense of any litigation asserting such claims.

Ewan and D'Imperio Site:

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As reported previously, the company has been named as a PRP in the case USEPA v. Jerome Lightman (92 CV 4710) (JBS) 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 likely be held in calendar year 2001. 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.



4. EARNINGS PER SHARE

Below is the computation of basic and diluted earnings per share for the three and nine months ended September 30, 2000 and 1999.

(In thousands, except per share amounts)

	Three Months Ended September 30		Nine Months Ended September 30	
	2000	1999	2000	1999
<b>Computation of Basic Earnings per Share</b>				
Net income	\$ 6,233	\$ 14	\$17,129	\$14,112
Deduct dividends on preferred stock	203	211	614	648
Income/(Loss) applicable to common stock	<u>\$ 6,030</u>	<u>\$ (197)</u>	<u>\$16,515</u>	<u>\$13,464</u>
Weighted-average number of shares outstanding	9,282	9,560	9,390	9,619
Basic earnings per share	<u>\$ 0.65</u>	<u>\$(0.02)</u>	<u>\$ 1.76</u>	<u>\$ 1.40</u>
<b>Computation of Diluted Earnings per Share</b>				
Net Income	\$ 6,233	\$ 14	\$17,129	\$14,112
Deduct dividends on preferred stock /(a)/	0	211	0	0
Income/(Loss) applicable to common stock	<u>\$ 6,233</u>	<u>\$ (197)</u>	<u>\$17,129</u>	<u>\$14,112</u>
Weighted-average number of shares outstanding	9,282	9,560	9,390	9,619
Add net shares issuable from assumed exercise of options (under treasury stock method) /(a)/	197	0	210	330
Add weighted-average shares issuable from assumed conversion of convertible preferred stock /(a)/	673	0	682	722
Shares applicable to diluted earnings	<u>10,152</u>	<u>9,560</u>	<u>10,282</u>	<u>10,671</u>
Diluted earnings per share	<u>\$ 0.61</u>	<u>\$(0.02)</u>	<u>\$ 1.67</u>	<u>\$ 1.32</u>

(a) The assumed conversion of convertible preferred stock and the assumed exercise of options are antidilutive for the three months ended September 30, 1999, and, accordingly, are excluded from the diluted earnings per share calculation for that period.

5. COMPREHENSIVE INCOME

Below is the company's comprehensive income for the three and nine months ended September 30, 2000 and 1999:

(Dollars in thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2000	1999	2000	1999
Net income	\$6,233	\$ 14	\$17,129	\$14,112
Other comprehensive income:				
Foreign currency translation adjustments	(933)	177	(2,403)	(1,038)
Comprehensive income	\$5,300	\$191	\$14,726	\$13,074

6. SEGMENT REPORTING

Stepan Company has three reportable segments: surfactants, polymers and specialty products. Financial results of Stepan Company's operating segments for the quarters and nine months ended September 30, 2000 and 1999 are summarized below:

(Dollars in thousands)	Surfactants	Polymers	Specialty Products	Segment Totals
For the quarter ended September 30, 2000				
Net sales	\$125,442	\$ 36,887	\$ 6,413	\$168,742
Operating income	10,906	5,313	2,045	18,264
For the quarter ended September 30, 1999				
Net sales	\$130,399	\$ 31,599	\$ 4,934	\$166,932
Operating income	10,569	6,182	615	17,366
For nine months ended September 30, 2000				
Net sales	\$386,694	\$103,613	\$15,694	\$506,001
Operating income	35,086	15,591	2,735	53,412
For nine months ended September 30, 1999				
Net sales	\$393,005	\$ 90,980	\$13,667	\$497,652
Operating income	38,494	17,584	1,769	57,847

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

(Dollars in thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2000	1999	2000	1999
Operating income segment totals	\$18,264	\$ 17,366	\$ 53,412	\$ 57,847
Unallocated corporate expenses /(a)/	(6,378)	(15,738)	(19,695)	(29,067)
Interest expense	(2,099)	(2,052)	(6,336)	(6,320)
Income from equity in joint ventures	202	447	470	674
Consolidated income before income taxes	\$ 9,989	\$ 23	\$ 27,851	\$ 23,134

(a) Includes corporate administrative and corporate manufacturing expenses which are not included in segment operating income and not used to evaluate segment performance. 1999 administrative expenses included \$10.3 million for a legal settlement.

There have been no changes in the basis of segmentation or the measurement of segment profit or loss and no material change in segment assets from those disclosed in the annual report for the year ended December 31, 1999.

#### 7. NEW ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities", effective for fiscal years beginning after June 15, 1999. The standard establishes accounting and reporting requirements for derivative instruments. In June 1999, the FASB issued SFAS No. 137, which deferred the effective date to fiscal years beginning after June 15, 2000. The company continues to analyze the effects of SFAS No. 133 and currently believes that the adoption of SFAS No. 133 in 2001 will not have a material effect on its consolidated results of operations or financial position.

In September 2000, the Emerging Issues Task Force (EITF) reached a final consensus on the classification of shipping and handling fees (Issue No. 00-10, "Accounting for Shipping and Handling Fees and Costs"). This consensus states that all amounts billed to a customer in a sale transaction related to shipping and handling, if any, represent revenue to the vendor and should be classified as revenue and all costs incurred by the seller for shipping and handling should be classified as cost of sales. Fourth quarter 2000 implementation of this consensus is required. Currently, the company nets the costs associated with shipping and handling products to customers and revenues derived from sale transactions in net sales. Accordingly, the company has determined that compliance with EITF Issue 00-10 will require reclassification of shipping and handling costs between net sales and cost of sales. Adoption of EITF Issue 00-10 will have no impact on the company's financial position or net income.

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

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

LIQUIDITY AND CAPITAL RESOURCES  
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For the nine months ended September 30, 2000, net cash from operations totaled \$32.5 million compared to \$35.6 million for the same period in 1999. Working capital totaled to a net use of \$12.5 million. Inventories were up by \$6.0 million, accounts receivables increased by \$4.9 million, and accounts payable and accrued liabilities decreased by \$1.2 million.

Capital spending totaled \$19.2 million for the first nine months of 2000 compared to \$24.9 million for the same period in 1999. The pace of expenditures is expected to increase during the fourth quarter of 2000. However, total year capital spending for 2000 is projected to be lower than the \$32.7 million recorded in 1999.

Since December 31, 1999, consolidated debt has decreased by \$1.8 million, to \$113.3 million. As of September 30, 2000, the ratio of long-term debt to long-term debt plus shareholders' equity was 39.7 percent compared to 40.9 percent last year-end.

The company maintains contractual relationships with its domestic banks that provide for revolving credit of up to \$60 million, which may be drawn upon as needed for general corporate purposes. The company also meets short-term liquidity requirements through uncommitted domestic bank lines of credit. The company's foreign subsidiaries maintain committed and uncommitted bank lines of credit in their respective countries to meet working capital requirements as well as to fund capital expenditure programs and acquisitions.

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

There have been no material changes in the company's market risks since December 31, 1999.

RESULTS OF OPERATIONS

Three Months Ended September 30, 2000 and 1999

Net income for the third quarter increased to \$6.2 million, or \$0.61 per share diluted, from \$14.0 thousand, or a \$0.02 loss per share diluted, for the same period in 1999. The results of the third quarter 1999 included an after-tax legal settlement charge of \$6.3 million. Net sales rose one percent from \$166.9 million in the third quarter of 1999 to \$168.7 million in 2000. Net sales by segment were:

(Dollars in thousands)

	Three Months Ended September 30		
	2000	1999	% Change
Net Sales:			
Surfactants	\$125,442	\$130,399	-4%
Polymers	36,887	31,599	+17%
Specialty Products	6,413	4,934	+30%
Total	\$168,742	\$166,932	+1%

Surfactants net sales decreased four percent from \$130.4 million in the third quarter of 1999 to \$125.4 million in the third quarter of 2000. Foreign operations net sales decreased by \$5.0 million, or 15 percent, from \$32.5 million in 1999 to \$27.5 million in the current quarter. A 17 percent drop in sales volume accounted for the decline. A majority of the shortfall was attributable to significantly lower volumes in Mexico. European operations also reported lower sales on weaker volumes. Lower exchange rates contributed to the drop in European reported sales. Domestic operations, which constitute 78 percent of total surfactant net sales, reported net sales of \$97.9 million, which was unchanged between years. A 10 percent decline in average selling prices more than offset a 12 percent increase in sales volume. Average selling prices fell due to sales mix, favorable impact in 1999 of a settlement of a contract cancellation and increased market competition. The improvement in sales volume was primarily due to higher demand for laundry and cleaning products.

Surfactants gross profit of \$19.7 million remained unchanged between quarters. Domestic operations gross profit increased \$0.6 million, or four percent, from \$16.1 million in 1999 to \$16.7 million in 2000. The increase was due to a 12 percent rise in sales volume, partially offset by a decline in average margins. The decline in average margins was caused by nonrecurring revenues in the prior year quarter stemming from a settlement on a contract cancellation. Gross profit for foreign operations declined 18 percent from \$3.6 million in 1999 to \$3.0 million in 2000. A 17 percent drop in sales volume, coupled with a decline in margins, led to the decrease.

Polymers net sales increased 17 percent between quarters from \$31.6 million in the third quarter of 1999 to \$36.9 million in the current quarter. The increase was due to an 11 percent improvement in sales volume, coupled with a five percent rise in average selling prices. Global polyurethane polyols increased \$3.3 million, or 20 percent, from \$17.0 million in 1999 to \$20.3 million in 2000, due to a 20 percent rise in sales volume. Polyurethane systems net sales increased 27 percent, from \$5.1 million in 1999 to \$6.5 million in 2000. A 29 percent rise in

sales volume led to the improvement. Despite a three percent drop in sales volume, revenue for phthalic anhydride (PA) increased six percent due to a rise in average selling prices. The increase in average selling prices was due to higher raw material costs, which were passed on to customers.

Polymers gross profit declined nine percent from \$7.7 million in the third quarter of 1999 to \$7.0 million in the third quarter of 2000. A drop in average margins more than offset the increased sales volume. Global polyurethane polyols reported a decline of \$0.8 million, or 14 percent, from \$5.7 million in 1999 to \$4.9 million in 2000. A drop in earnings was caused by a decline in average margins, which more than offset improved sales volume. The average margins decline was caused mainly by higher raw material costs. Polyurethane systems gross profit grew 19 percent to \$1.4 million in 2000 from \$1.2 million in 1999. The 29 percent sales volume increase accounted for the growth. PA gross profit decreased nine percent from \$1.4 million in 1999 to \$1.3 million in the third quarter of 2000, due to decreased sales volume and to a \$0.9 million write-off of a damaged asset. Lower plant operating expenses favorably affected PA's gross profit.

Specialty products net sales increased 30 percent, from \$4.9 million in the third quarter of 1999 to \$6.4 million in 2000. Gross profit increased from \$0.9 million in 1999 to \$2.4 million in 2000 due to a surge in orders of higher value added products that tend to have erratic demand.

Operating expenses for the third quarter decreased 36 percent from \$26.6 million in the third quarter of 1999 to \$17.1 million in 2000. Administrative expenses decreased 61 percent between quarters. The third quarter of 1999 included a \$10.3 million pre-tax legal settlement charge. Marketing expenses increased three percent between quarters and research and development expenses decreased seven percent.

Income from joint ventures declined 55 percent. The decrease was due to foreign exchange losses resulting from the weakening of the Philippine peso.

Nine Months Ended September 30, 2000 and 1999

Net income for the first nine months ended September 30, 2000, was \$17.1 million, or \$1.67 per share diluted, compared to \$14.1 million, or \$1.32 per share diluted, for the same period in 1999. The results for nine months ended September 30, 1999, included a \$6.3 million after-tax legal settlement charge. Net sales increased two percent to \$506.0 million from \$497.7 million reported a year ago. Net sales by segment were:

(Dollars in thousands)

	Nine Months Ended September 30		
	2000	1999	% Change
Net Sales:			
Surfactants	\$386,694	\$393,005	-2%
Polymers	103,613	90,980	+14%
Specialty Products	15,694	13,667	+15%
Total	\$506,001	\$497,652	+2%

Surfactants net sales decreased \$6.3 million, or two percent, from \$393.0 million in 1999 to \$386.7 million in 2000. Foreign surfactants net sales dropped six percent from \$91.1 million in 1999 to \$85.6 million in 2000. The decrease was primarily due to lower sales volume in Mexico. Europe reported lower sales on weaker selling prices and lower exchange rates. Volume gains from operations in France were partially offset by weakness in Germany. Domestic operations, which accounted for 78 percent of total surfactants revenue, decreased \$0.8 million, from \$301.9 million in 1999 to \$301.1 million in 2000. Average selling prices declined six percent largely due to sales mix and the favorable impact in 1999 of a settlement of a contract cancellation. Sales volume grew six percent due to higher demand for company's laundry and cleaning products and rising export sales to Asia.

Surfactants gross profit was down \$2.0 million, or three percent, from \$64.6 million in 1999 to \$62.7 million in 2000. A decline in average margins more than offset a four percent growth in sales volume. Domestic surfactants gross profit decreased \$2.2 million, or four percent, from \$53.5 million in 1999 to \$51.3 million in 2000, despite a six percent increase in sales volume. As previously mentioned, the settlement of a contract cancellation in 1999 added nonrecurring revenues to the prior year that account for most of the decline in gross profit. Gross profit for foreign operations improved two percent rising from \$11.1 million in 1999 to \$11.3 million in 2000. The company's Canadian operations contributed most of the increase due to improved average margins. Mexican operations' gross profit decreased 47 percent due to a decline of sales volume. European operations' gross profit decreased due to lower margins resulting from sales mix, strong competition and weaker exchange rates.

Polymers net sales for the first nine months of 2000 were \$103.6 million, up \$12.6 million, or 14 percent, in comparison with \$91.0 million a year ago. PA net sales increased \$5.4 million, or 21 percent, from \$26.3 million in 1999 to \$31.7 million in 2000. The increase was mainly due to an 18 percent rise in average selling prices which was attributed to increased raw material costs passed on to customers. PA sales volume increased two percent between years. Global

polyurethane polyols net sales rose 11 percent from \$48.9 million in 1999 to \$54.5 million in 2000. The increase was entirely due to a 12 percent rise in sales volume. Net sales for polyurethane systems increased \$1.6 million, or 10 percent, from \$15.8 million in 1999 to \$17.4 million in 2000, on a 12 percent improvement in sales volume.

Polymers gross profit decreased eight percent from \$22.3 million in 1999 to \$20.5 million in 2000. Gross profit for global polyurethane polyols dropped \$3.4 million, or 20 percent, between years and accounted for the overall decline in polymers earnings. Lower margins more than offset the improved sales volume. Higher raw material costs caused the margin decline. Gross profit for PA rose \$1.0 million, or 25 percent, primarily due to improved average margins resulting from lower plant operating expenses. Polyurethane systems gross profit increased \$0.6 million, or 17 percent, between years on higher sales volume and improved margins.

Specialty products recorded a 15 percent increase in net sales from \$13.7 million in 1999 to \$15.7 million in 2000. Gross profit increased 42 percent from \$2.6 million in 1999 to \$3.7 million in 2000. Sales of higher margin products improved significantly in comparison with the prior year.

Operating expenses decreased \$7.7 million, or 13 percent, between years. Administrative expenses dropped 33 percent as 1999 included a \$10.3 million legal settlement charge. Marketing expenses increased four percent and research and development expenses rose two percent.

Income from joint ventures decreased 30 percent from year-to-year due to a weaker Philippine peso.

#### OUTLOOK

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The company believes that the remainder of the year will continue to be a challenge. Full year net income may fall short of the \$22.1 million recorded in 1999. To stimulate growth, the company will continue to look at synergistic acquisitions at the same time as pursuing internal product development opportunities. While not likely to have an impact on current year results, these opportunities will provide stimulus for improved earnings in 2001.

#### LEGAL AND ENVIRONMENTAL MATTERS

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The company is subject to extensive federal, state and local environmental laws and regulations. Although the company's environmental policies and practices are designed to ensure compliance with these laws and regulations, future developments and increasingly stringent environmental regulation could require the company to make additional unforeseen environmental expenditures. The company will continue to invest in the equipment and facilities necessary to comply with existing and future regulations. During the first nine months of 2000, company expenditures for capital projects related to the environment were \$1.5 million. These projects are capitalized and typically depreciated over 10 years. Recurring costs associated with the operation and maintenance of facilities for waste treatment and disposal and managing environmental



compliance in ongoing operations at our manufacturing locations were \$5.7 million for the first nine months of 2000.

The company has been named by the government as a potentially responsible party at 16 waste disposal sites where cleanup costs have been or may be incurred under the federal Comprehensive Environmental Response, Compensation and Liability Act and similar state statutes. In addition, damages are being claimed against the company in general liability actions for alleged personal injury or property damage in the case of some disposal and plant sites. The company believes that it has made adequate provisions for the costs it may incur with respect to these sites. The company has estimated a range of possible environmental and legal losses from \$4.0 million to \$24.3 million at September 30, 2000. At September 30, 2000, the company's reserve was \$11.5 million for legal and environmental matters compared to \$11.6 million at December 31, 1999. During the first nine months of 2000, expenditures related to legal and environmental matters approximated \$1.5 million. 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 results of operations for those periods could be material. However, based upon the company's present belief as to its relative involvement at these sites, other viable entities' responsibilities for cleanup and the extended period over which any costs would be incurred, the company believes that these matters will not have a material effect on the company's financial position. Certain of these matters are discussed in Item 3, Legal Proceedings, in the 1999 Form 10-K Annual Report, and in other filings of the company with the Securities and Exchange Commission, which are available upon request from the company. See Footnote 3, Contingencies, in Notes to Condensed Consolidated Financial Statements, and Item 1, Legal Proceedings, in this Form 10-Q for a summary of the environmental proceedings related to the company's Maywood, New Jersey, and Ewan and D'Imperio environmental sites.

#### NEW ACCOUNTING STANDARDS

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In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities", effective for fiscal years beginning after June 15, 1999. The standard establishes accounting and reporting requirements for derivative instruments. In June 1999, the FASB issued SFAS No. 137, which deferred the effective date to fiscal years beginning after June 15, 2000. The company continues to analyze the effects of SFAS No. 133 and currently believes that the adoption of SFAS No. 133 in 2001 will not have a material effect on its consolidated results of operations or financial position.

In September 2000, the Emerging Issues Task Force (EITF) reached a final consensus on the classification of shipping and handling fees (Issue No. 00-10, "Accounting for Shipping and Handling Fees and Costs"). This consensus states that all amounts billed to a customer in a sale transaction related to shipping and handling, if any, represent revenue to the vendor and should be classified as revenue and all costs incurred by the seller for shipping and handling should be classified as cost of sales. Fourth quarter 2000 implementation of this consensus is required. Currently, the company nets the costs associated with shipping and handling products to customers and revenues derived from sale transactions in net sales. Accordingly, the company

has determined that compliance with EITF Issue 00-10 will require reclassification of shipping and handling costs between net sales and cost of sales. Adoption of EITF Issue 00-10 will have no impact on the company's financial position or net income.

OTHER

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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, 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.

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Item 1 - Legal Proceedings

As reported previously, 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 Liabilities Act (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 the 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 has been awaiting the issuance of a Record of Decision (ROD) from the USEPA which would relate to both the currently owned and formerly owned company property and would recommend the type of remediation required on each property. The company's understanding is that USEPA anticipates that it will issue the proposed ROD in the fourth quarter of 2000 or the first quarter of 2001.

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 (byproduct material and source material) 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 the 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 refers to both radiological and non-radiological hazardous waste at the Maywood site and states that the United States has incurred unreimbursed response costs to date of \$138 million. In the letter, the Justice Department invited the company to discuss settlement of the matter in order to avoid the need for litigation. Discussions with the Justice Department are currently on-going to attempt to resolve this matter. The company has previously included potential claims for response costs associated with non-radiological waste at the Maywood site in its estimated ranges of costs and its establishment of reserves for potential claims at various sites where it is a potentially responsible party (PRP) under CERCLA and the company believes such estimates and reserves are adequate

to include claims associated with non-radiological waste at the Maywood site. The company has not reflected in such estimates and such reserves any amount for 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 and could be expected to aggregate substantially in excess of that amount) because of its belief that its liability, if any, for such costs has been resolved by the aforesaid Agreement. The company continues to believe that it has no liability to the United States for such radiological cleanup costs by reason of the aforesaid Agreement and the company intends to continue to assert that position vigorously in discussions with the Justice Department and, if necessary, in defense of any litigation asserting such claims.

As reported previously, the company has been named as a PRP in the case USEPA v. Jerome Lightman (92 CV 4710) (JBS) 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 likely be held in calendar year 2001. 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.

As reported previously, the company received a Section 104(e) Request for Information from the 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. An agreement has not been reached by the PRPs over the funding arrangement of the RI/FS and therefore, the company has not yet made a determination if it will be participating in the performance of the RI/FS. The company has not received any additional information or requests from USEPA regarding this matter. The company cannot predict what its liability, if any, will be for this site.

Reference is made to the action entitled Pennsauken Solid Waste Management Authority v. State of New Jersey, et al. The company was dismissed from this action. Therefore, this action had no material impact on the financial condition of the company.

Item 6 - Exhibits and Reports on Form 8-K

(A) Exhibits

(27) Financial Data Schedule

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

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

Date: November 14, 2000



This schedule contains summary financial information extracted from the condensed consolidated balance sheet as of September 30, 2000 and consolidated statement of income for the nine months then ended and is qualified in its entirety by reference to such financial statements.

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9-MOS		
	DEC-31-2000	
	JAN-01-2000	
	SEP-30-2000	
		2,394
		0
	101,942	
		0
	57,824	
	176,340	
		610,932
	412,417	
	412,690	
	95,698	
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	0	
	19,318	
		9,789
	128,964	
412,690		
		506,001
	506,001	
		419,213
	472,284	
		0
	0	
	6,336	
	27,851	
		10,722
	0	
		0
	0	
		0
	17,129	
		1.76
		1.67