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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## FORM 8-K

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

Date of report (Date of earliest event reported) October 19, 2005

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### STEPAN COMPANY

(Exact Name of Registrant as Specified in its Charter)

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**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

Former name or former address, if changed since last report: Not Applicable

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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**Item 2.02 Results of Operations and Financial Condition.**

On October 19, 2005, Stepan Company (“Stepan”) issued a press release providing its financial results for the third quarter ended September 30, 2005. A copy of the press release is attached as Exhibit 99.1 hereto and incorporated herein by reference.

**Item 9.01 Financial Statements and Exhibits.**

(c) Exhibits

<u>Exhibit Number</u>	<u>Description</u>
99.1	Press Release of Stepan Company dated October 19, 2005

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

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Kathleen M. Owens  
Assistant Secretary

Date: October 20, 2005

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
99.1	Press Release of Stepan Company dated October 19, 2005

**STEPAN REPORTS HIGHER THIRD QUARTER SALES AND EARNINGS**

NORTHFIELD, Illinois, October 19, 2005 — Stepan Company (NYSE: SCL) today reported third quarter results for the period ended September 30, 2005.

**SUMMARY**

	Three Months Ended September 30			Nine Months Ended September 30		
	2005	2004	% Change	2005	2004	% Change
<i>(\$ in thousands)</i>						
Net Sales	\$265,717	\$238,697	+ 11	\$808,322	\$696,431	+ 16
Net Income	4,166	1,891	+ 120	13,587	9,723	+ 40
Earnings per Diluted Share	\$ 0.43	\$ 0.19	+ 126	\$ 1.40	\$ 1.00	+ 40

**THIRD QUARTER RESULTS**

Net income increased 120 percent to \$4,166,000, or \$0.43 per diluted share. Surfactants represented the majority of the earnings increase due to improved volume in Mexico, the United Kingdom and increased contribution from sales of biodiesel in the U.S. The surfactant improvement also includes \$1.6 million of pretax income (\$1.1 million after tax, or \$0.11 per diluted share) from insurance proceeds related to equipment destroyed by a fire during 2004 at the Company's plant in the United Kingdom. The insurance covered replacement cost, which exceeded the book value of the equipment, resulting in income. The Company chose not to rebuild this drying facility, which was a small part of the plant's operation. Polymer earnings declined slightly on lower demand for polyurethane polyol. Specialty Products posted higher earnings on strong volume and favorable sales mix of higher margin products.

Operating expenses included a \$1.7 million pretax charge for deferred compensation expense (\$1.2 million after tax or \$0.12 per diluted share). The accounting requirement for the deferred compensation plan results in expense when the price of Stepan Company stock rises and income when the stock price declines.

Net sales increased 11 percent for the quarter due to higher selling prices (7%), higher sales volume (3%), and the effect of foreign currency translation (1%). Higher selling prices are attributable to the pass through of higher raw material costs resulting primarily from the surge in the price of crude oil.

**SEGMENT RESULTS**

(\$ in thousands)	Three Months Ended September 30			Nine Months Ended September 30		
	2005	2004	% Change	2005	2004	% Change
<b>Net Sales</b>						
Surfactants	\$208,277	\$177,979	+ 17	\$616,486	\$535,395	+ 15
Polymers	50,041	54,657	- 8	171,571	140,545	+ 22
Specialty Products	7,399	6,061	+ 22	20,265	20,491	- 1
<b>Total Net Sales</b>	<b>\$265,717</b>	<b>\$238,697</b>	<b>+ 11</b>	<b>\$808,322</b>	<b>\$696,431</b>	<b>+ 16</b>

Surfactant earnings improved on a nine percent growth in sales volume for the quarter. North American volume and earnings growth was primarily due to sales of biodiesel fuel, which the Company processes from soybean oil. European earnings improved due to the benefit of the United Kingdom fire insurance income mentioned previously, coupled with volume gains in the United Kingdom where a competitor closed a production facility. Latin American earnings grew as a result of increased sales into the fabric softener market. Surfactant price increases have been largely effective in recovering higher raw material, freight and utility costs brought about by high crude oil and natural gas prices.

Polymer earnings declined slightly during the quarter. Sales and earnings of polyurethane polyol declined as end user demand in the North American roof insulation market slowed considerably in response to high material costs. Phthalic anhydride earnings improved on slightly lower volume as margins have recovered.

Specialty Products earnings improved as volume improved in the third quarter from weaker first half results. The sales mix, consisting of a greater percentage of higher margin pharmaceutical ingredients, also contributed to the earnings improvement.

**OPERATING EXPENSES**

(\$ in thousands)	Three Months Ended September 30			Nine Months Ended September 30		
	2005	2004	% Change	2005	2004	% Change
Marketing	\$ 7,907	\$ 7,066	+ 12	\$24,372	\$21,660	+ 13
Administrative - General	7,887	9,174	- 14	24,154	26,267	- 8
Administrative – Deferred Compensation Obligations	1,749	(821)	NM	989	(224)	NM
Research, development and technical service	7,122	6,770	+ 5	22,319	19,516	+ 14
<b>Total</b>	<b>\$24,665</b>	<b>\$22,189</b>	<b>+ 11</b>	<b>\$71,834</b>	<b>\$67,219</b>	<b>+ 7</b>

Operating expenses increased 11 percent for the quarter and seven percent through nine months. The growth in marketing expense is due to higher salary and pension costs coupled with additional costs of our new operations in Brazil and China. Higher healthcare costs during the first half of 2005 have also contributed to the year-to-date increase. General administrative expenses declined due to nonrecurring SAP system implementation expenses in Europe during 2004 coupled with lower legal expenses in the U.S. as a result of litigation settlements reached in 2004. Deferred compensation expense increased \$2.6 million during the quarter and \$1.2 million for the nine month period. Research expense rose by five percent during the quarter and 14 percent year-to-date due to higher salary, pension and healthcare costs, coupled with outside

consulting services for new product development. The higher year-to-date research expense increase resulted from repair and maintenance of research equipment and product testing, which occurred earlier in the year.

**OTHER INCOME AND EXPENSE**

Interest expense increased due to higher average debt levels and higher short term interest rates. Our Philippine joint venture reported a loss due to an adverse change in product mix. Stepan Philippines is constructing a new plant at its existing site for diversification into fabric softeners in 2006.

**OUTLOOK**

“We expect improvement over the prior year fourth quarter in surfactant earnings,” said F. Quinn Stepan, Chairman and Chief Executive Officer. “We now expect the weakness in polymer volume sold to the roof insulation market to persist through the first quarter of 2006 as end users delay roof repairs due to the current high material prices. Higher crude oil and natural gas prices have led to higher raw material, freight and utility costs for all of our business segments. We continue to raise prices to recover these costs. The higher crude oil prices are having a favorable impact on biodiesel economics. Our biodiesel plant is running at capacity and an expansion project is underway,” said Mr. Stepan.

**CONFERENCE CALL**

Stepan Company will host a conference call to discuss the third quarter results at 2:00 p.m. Eastern Daylight Time on October 19, 2005. To listen to a live webcast of this call, please go to our Internet website at: [www.stepan.com](http://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.

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table follows

*Except for historical information, all other information in this news release consists of forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected, anticipated or implied. The most significant of these uncertainties are described in Stepan Company's Form 10-K, Form 8-K and Form 10-Q reports and exhibits to those reports, and include (but are not limited to), prospects for our foreign operations, foreign currency fluctuations, certain global and regional economic conditions, the probability of future acquisitions and the uncertainties related to the integration of acquired businesses, the probability of new products, the loss of one or more key customer or supplier relationships, the costs and other effects of governmental regulation and legal and administrative proceedings, and general economic conditions. These forward-looking statements are made only as of the date hereof, and Stepan Company undertakes no obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise.*



**STEPAN COMPANY**  
**Statements of Income**  
For the Three and Nine Months Ended September 30, 2005 and 2004  
(Unaudited - 000's Omitted)

	Three Months Ended September 30			Nine Months Ended September 30		
	2005	2004	% Change	2005	2004	% Change
<b>Net Sales</b>	<b>\$ 265,717</b>	\$ 238,697	+ 11	<b>\$ 808,322</b>	\$ 696,431	+ 16
<b>Cost of Sales</b>	<b>232,998</b>	212,490	+ 10	<b>711,084</b>	610,076	+ 17
<b>Gross Profit</b>	<b>32,719</b>	26,207	+ 25	<b>97,238</b>	86,355	+ 13
<b>Operating Expenses:</b>						
Marketing	7,907	7,066	+ 12	24,372	21,660	+ 13
Administrative	9,636	8,353	+ 15	25,143	26,043	- 3
Research, Development and Technical Services	7,122	6,770	+ 5	22,319	19,516	+ 14
	<b>24,665</b>	22,189	+ 11	<b>71,834</b>	67,219	+ 7
<b>Operating Income</b>	<b>8,054</b>	4,018	+ 100	<b>25,404</b>	19,136	+ 33
<b>Other Income (Expense):</b>						
Interest, Net	(1,994)	(1,704)	+ 17	(5,799)	(5,557)	+ 4
Income from Equity Joint Venture	(119)	441	- —	(225)	1,459	- —
Other, Net	(122)	11	- —	572	(760)	+ —
	<b>(2,235)</b>	(1,252)	+ 79	<b>(5,452)</b>	(4,858)	+ 12
<b>Income Before Provision for Income Taxes</b>	<b>5,819</b>	2,766	+ 110	<b>19,952</b>	14,278	+ 40
<b>Provision for Income Taxes</b>	<b>1,652</b>	875	+ 89	<b>6,385</b>	4,555	+ 40
<b>Minority Interest</b>	<b>(1)</b>	0	- —	<b>20</b>	0	+ —
<b>Net Income</b>	<b>\$ 4,166</b>	\$ 1,891	+ 120	<b>\$ 13,587</b>	\$ 9,723	+ 40
<b>Net Income Per Common Share</b>						
Basic	<b>\$ 0.44</b>	\$ 0.19	+ 132	<b>\$ 1.44</b>	\$ 1.02	+ 41
Diluted	<b>\$ 0.43</b>	\$ 0.19	+ 126	<b>\$ 1.40</b>	\$ 1.00	+ 40
<b>Shares Used to Compute Net Income Per Common Share</b>						
Basic	<b>9,006</b>	8,981	+ —	<b>8,998</b>	8,964	+ —
Diluted	<b>9,757</b>	9,038	+ 8	<b>9,709</b>	9,696	+ —

**STEPAN COMPANY**  
**Condensed Balance Sheets**  
**September 30, 2005 and December 31, 2004**  
(Unaudited – 000's Omitted)

	<u>2005</u>	<u>2004</u>
	<u>September 30</u>	<u>December 31</u>
<b><u>ASSETS</u></b>		
Current Assets	\$ 258,784	\$ 235,484
Property, Plant & Equipment, net	208,452	208,870
Other Assets	45,778	48,422
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<b>Total assets</b>	<b>\$ 513,014</b>	<b>\$ 492,776</b>
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<b><u>LIABILITIES &amp; STOCKHOLDERS' EQUITY</u></b>		
Current Liabilities	\$ 149,781	\$ 157,602
Long-term Debt	116,525	94,018
Other Non-current Liabilities	72,534	71,981
Minority Interest	935	934
Stockholders' Equity	173,239	168,241
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<b>Total liabilities &amp; Stockholders' equity</b>	<b>\$ 513,014</b>	<b>\$ 492,776</b>
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