STEPAN CO
Form 10-K
February 26, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(MARK ONE)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2009

OR

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

Commission File Number 1-4462

STEPAN COMPANY

(Exact name of registrant as specified in its charter)

Delaware	**36-1823834**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
Edens and Winnetka Road, Northfield, Illinois	**60093**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number including area code: 847-446-7500

Securities registered pursuant to Section 12 (b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, $1 par value	**New York Stock Exchange** **Chicago Stock Exchange**
5 1/2% Convertible Preferred Stock, no par value	**New York Stock Exchange** **Chicago Stock Exchange**

Securities registered pursuant to Section 12 (g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act Yes ¨ No x

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 by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in part III of this Form 10-K or any amendment to this Form 10-K. ¨.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes ¨ No x

Aggregate market value at June 30, 2009, of voting and non-voting common stock held by nonaffiliates of the registrant: $342,838,136*

Number of shares outstanding of each of the registrant s classes of common stock as of January 31, 2010:

Class	Outstanding at January 31, 2010
Common Stock, $1 par value	9,948,215

Documents Incorporated by Reference

Part of Form 10-K	Document Incorporated
Part III, Items 10-14	Proxy Statement dated March 19, 2010

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

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STEPAN COMPANY

ANNUAL REPORT ON FORM 10-K

December 31, 2009

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PART I

Item 1. Business

Stepan Company, which was incorporated under the laws of the state of Delaware on February 19, 1959, and its subsidiaries (the Company) produce specialty and intermediate chemicals, which are sold to other manufacturers and then made into a variety of end products. The Company has three reportable segments: surfactants, polymers and specialty products. Surfactants refer to chemical agents that affect the interaction between two surfaces; they can provide actions such as detergency (i.e., the ability of water to remove soil from another surface), wetting and foaming, dispersing, emulsification (aiding two dissimilar liquids to mix), demulsification, viscosity modifications and biocidal disinfectants. Surfactants are the basic cleaning agent in detergents for washing clothes, dishes, carpets, fine fabrics, floors and walls. Surfactants are also used for the same purpose in shampoos and conditioners, fabric softeners, toothpastes, cosmetics and other personal care products. Commercial and industrial applications include emulsifiers for agricultural products, emulsion polymers such as floor polishes and latex foams and coatings, wetting and foaming agents for wallboard manufacturing, surfactants for enhanced oil recovery and biodiesel. Polymers, which include two primary product lines, polyols and phthalic anhydride, are used in multiple types of specialty polymers. Specialty products include chemicals used in food, flavoring and pharmaceutical applications.

MARKETING AND COMPETITION

Principal markets for surfactants are manufacturers of detergents, shampoos, lotions, fabric softeners, toothpastes and cosmetics. In addition, surfactants are sold to the producers of emulsifiers, lubricating products and biodiesel fuel. The Company also is a principal provider of polymers used in construction, refrigeration, automotive, boating and other consumer product industries. Polymer products are also used in the flexible foam industry as well as the coatings, adhesives, sealants and elastomer industries. Specialty products are used primarily by food and pharmaceutical manufacturers.

The Company does not sell directly to the retail market, but sells to a wide range of manufacturers in many industries and has many competitors. The principal methods of competition are product performance, price, technical assistance and adaptability to the specific needs of individual customers. These factors allow the Company to compete on a basis other than price alone, reducing the severity of competition as experienced in the sales of commodity chemicals having identical performance characteristics. The Company is a leading merchant producer of surfactants in the United States. In the case of surfactants, much of the Company s competition comes from several large global and regional producers and the internal divisions of larger customers. In the manufacture of polymers, the Company competes with the chemical divisions of several large companies, as well as with other small specialty chemical manufacturers. In specialty products, the Company competes with several large firms plus numerous small companies.

MAJOR CUSTOMER AND BACKLOG

The Company does not have any one customer whose business represents more than 10 percent of the Company s consolidated revenue. Most of the Company s business is essentially on the spot delivery basis and does not involve a significant backlog. The Company does have contract arrangements with certain customers, but purchases are generally contingent on purchaser requirements.

ENERGY SOURCES

Substantially all of the Company s manufacturing plants operate on electricity and interruptable natural gas. During peak heating demand periods, gas service to all plants may be temporarily interrupted for varying periods ranging from a few days to several months. The plants operate on fuel oil during these periods of interruption. The Company s domestic operations and its wholly-owned subsidiaries have not experienced any plant shutdowns or adverse effects upon its business in recent years that were caused by a lack of available energy sources, other than temporary service interruptions brought on by mechanical failure.

RAW MATERIALS

The most important raw materials used by the Company are of a petroleum or plant nature. For 2010, the Company has commitments from suppliers to cover its forecasted requirements and is not substantially dependent upon any one supplier.

RESEARCH AND DEVELOPMENT

The Company maintains an active research and development program to assist in the discovery and commercialization of new knowledge with the intent that such efforts will be useful in developing a new product or in bringing about a significant improvement to an existing product or process. Total expenses for research and development during 2009, 2008 and 2007 were $23.4 million, $22.1 million, and $19.9 million, respectively. The balance of research and development expenses reflected on the consolidated statements of income relates to technical services, which include routine product testing, analytical methods development and sales support service.

ENVIRONMENTAL COMPLIANCE

Compliance with applicable federal, state and local regulations regarding the discharge of materials into the environment, or otherwise relating to the protection of the environment, resulted in capital expenditures by the Company of approximately $2.6 million during 2009. These expenditures represented approximately six percent of the Company s capital expenditures in 2009. These expenditures, when incurred, are depreciated and charged on a straight-line basis to pretax earnings over their estimated useful lives, which is typically 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 approximately $15.4 million in 2009. Compliance with such regulations is not expected to have a material adverse effect on the Company s earnings and competitive position in the foreseeable future.

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EMPLOYMENT

At December 31, 2009 and 2008, the Company employed 1,594 and 1,578 persons, respectively.

FOREIGN OPERATIONS AND REPORTING SEGMENTS

See Note 17, Segment Reporting, of the Consolidated Financial Statements (Item 8 of this Form 10-K).

WEBSITE

The Company s website address is www.stepan.com. The Company makes available free of charge on or through its website its code of conduct, annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission. The website also includes the Company s corporate governance guidelines and the charters for the audit, nominating and corporate governance and compensation and development committees of the Board of Directors.

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Item 1A. Risk Factors

The following discussion identifies the most significant factors that may adversely affect the Company s business, financial condition, results of operations and cash flows. These and other factors, many of which are beyond the Company s control, may cause future results of operations to differ materially from those currently expected or desired.

The Company s forecasts and other forward-looking statements are based on a variety of assumptions and estimates that are subject to significant uncertainties. The Company s performance may not be consistent with these forecasts or forward-looking statements.

From time to time in press releases and other documents filed with the SEC, the Company publishes forecasts or other forward-looking statements regarding its future results, including estimated revenues, net earnings and other operating and financial metrics.

Any forecast or forward-looking statement related to the Company s future performance reflects various assumptions and estimates, which are subject to significant uncertainties, and the achievement of any forecast or forward-looking statement depends on numerous risks and other factors, including those described in this Annual Report on Form 10-K, many of which are beyond the Company s control. If these assumptions and estimates prove to be incorrect, or any of the risks or other factors occur, then the Company s performance may not be consistent with these forecasts or forward-looking statements.

You are cautioned not to base your entire analysis of the Company s business and prospects upon isolated predictions, but instead are encouraged to utilize the entire mix of publicly available historical and forward-looking information, as well as other available information affecting the Company, the Company s services and the Company s industry, when evaluating the Company s forecasts and other forward-looking statements relating to the Company s operations and financial performance.

Natural disasters, including earthquakes, fires and flooding, work stoppages and terrorism could severely damage the Company s systems and facilities or interrupt the Company s operations and result in a material adverse effect on the Company s business, financial position, results of operations and cash flows.

Natural disasters, such as fires, flooding, earthquakes and tornadoes, power loss, break-ins, work stoppages, acts of war, terrorism or other similar events, could severely damage the Company s systems and facilities or interrupt the Company s operations, potentially resulting in temporary or permanent loss of the Company s manufacturing capability. Some of the Company s products cannot currently be made, or made in the volume required, at more than one of the Company s locations. For some of these products, the Company has access to external market suppliers, but the Company cannot guarantee that these products will be available to it in the market in amounts sufficient to meet its requirements or at a cost that is competitive with the Company s cost of manufacturing these products. While the Company maintains insurance coverage, there can be no assurance that it would be sufficient to cover any or all losses resulting from the occurrence of any of these events or that carriers would not deny coverage for these losses even if they are insured. There is also a risk, beyond the reasonable control of the Company, that an insurance carrier may not have the financial resources to cover an insurable loss. As a result, the occurrence of any of these events could have a material adverse effect on the Company s business, financial position, results of operations and cash flows.

The Company faces significant competition in each of its operating segments. If the Company cannot successfully compete in the marketplace, its profitability, business, financial position, results of operations and cash flows may be materially and adversely affected.

The Company faces significant competition from numerous global companies as well as national, regional and local companies within some or all of its product categories in each market it serves. In addition, some of the Company s customers have internal manufacturing capabilities that allow them to achieve make-versus-buy economics, which may result at times in the Company gaining or losing business with these customers in volumes that could adversely affect its profitability.

To achieve expected profitability levels, the Company must, among other things, maintain the service levels, product quality and performance and competitive pricing necessary to retain existing customers and attract new customers. The Company s inability to do so could put it at a competitive disadvantage relative to its competitors, and if the Company cannot successfully compete in the marketplace, its business, financial position, results of operations and cash flows may be materially and adversely affected.

The volatility of raw material, natural gas and electricity costs as well as any disruption in their supply may materially and adversely affect the Company s business, financial position, results of operations and cash flows.

The costs of raw materials, natural gas and electricity represent a substantial portion of the Company s operating costs. The principal raw materials used in the Company s products are petroleum-based or plant-based. Natural gas is used in the Company s manufacturing sites primarily to generate steam for its manufacturing processes. The prices of many of these raw materials are cyclical, and the market price of natural gas has recently been very volatile. These fluctuations in prices may be affected by supply and demand factors, such as general economic conditions, currency exchange rates, political instability and terrorist attacks, which are beyond the Company s control. The Company may not be able to pass increased raw material and natural gas prices on to customers through increases in product prices as a result of arrangements the Company has with certain customers and competitive pressures in the market that may not allow us to increase prices. The Company tries to minimize the effect of increases in the prices of raw materials, natural gas and electricity through production efficiency, the use of alternative suppliers and, in the case of natural gas, the use of forward purchase contracts. If the Company is unable to minimize the effects of increased raw material and energy costs or pass such increased costs on to customers, its business, financial position, results of operations and cash flows may be materially and adversely affected. Moreover, the supply of some of these raw materials may be disrupted for many reasons, including but not limited to the manufacturers inability to produce these raw materials in amounts sufficient to meet their supply obligations or restrictions on the transport of these raw materials, some of which may be viewed as hazardous.

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If the Company is unable to keep and protect its intellectual property rights, the Company s ability to compete may be negatively impacted.

The Company has intellectual property rights in all three reportable segments. Although most of the Company s intellectual property rights are registered in the United States and in the foreign countries in which it operates, the Company may not be able to assert these rights successfully in the future or guarantee that they will not be invalidated, circumvented or challenged. Other parties may infringe on the Company s intellectual property rights, which may dilute the value of such rights. Any infringement on the Company s intellectual property rights would also likely result in diversion of management s time and the Company s resources to protect these rights through litigation or otherwise. In addition, the laws of some foreign countries may not protect the Company s intellectual property rights to the same extent as the laws of the United States. Any loss of protection of these intellectual property rights could adversely affect the future results of operations and cash flows of the Company.

The Company is subject to risks related to its operations outside the U.S.

The Company has substantial operations outside the U.S. In the year ended December 31, 2009, the Company s sales outside of the U.S. constituted approximately 37 percent of the Company s net sales. In addition to the risks described in this Annual Report on Form 10-K that are common to both the Company s U.S. and non-U.S. operations, the Company faces, and will continue to face, risks related to the Company s foreign operations such as:

- foreign currency fluctuations;
- unstable political, economic, financial and market conditions;
- import and export license requirements;
- trade restrictions;
- increases in tariffs and taxes;
- high levels of inflation;
- restrictions on repatriating foreign profits back to the U.S.;
- greater difficulty collecting accounts receivable and longer payment cycles;
- less favorable intellectual property laws;
- changes in foreign laws and regulations; and
- changes in labor conditions and difficulties in staffing and managing international operations.

All of these risks have affected the Company s business in the past and may have a material adverse effect on the Company s business, financial position, results of operations and cash flows in the future.

The Company is also exposed to fluctuations in exchange rates. The Company s results of operations are reported in U.S. dollars. However, outside the U.S., the Company s sales and costs are denominated in a variety of currencies including the European euro, British pound, Canadian dollar, Mexican peso, Colombian peso, Brazilian real and Chinese RMB. Fluctuations in exchange rates may materially and adversely affect the Company s business, financial position, results of operations and cash flows.

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In all jurisdictions in which the Company operates, the Company is also subject to laws and regulations that govern foreign investment, foreign trade and currency exchange transactions. These laws and regulations may limit the Company s ability to repatriate cash as dividends or otherwise to the U.S. and may limit the Company s ability to convert foreign currency cash flows into U.S. dollars. A weakening of the currencies in which the Company generates sales relative to the foreign currencies in which the Company s costs are denominated may lower the Company s operating profits and cash flows.

We are subject to a variety of environmental, health and safety and product registration laws that expose the Company to potential financial liability and increased operating costs.

The Company s operations are regulated under a number of federal, state, local and foreign environmental, health and safety laws and regulations that govern, among other things, the discharge of hazardous materials into the air, soil and water as well as the use, handling, storage and disposal of these materials. These laws and regulations include, but are not limited to, the U.S. Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act, as well as analogous state, local and foreign laws, and the Registration, Evaluation, Authorization and Restriction of Chemical Substances Act (REACH). Compliance with these environmental laws and regulations is a major consideration for the Company because the Company uses hazardous materials in some of the Company s manufacturing processes. In addition, compliance with environmental laws could restrict the Company s ability to expand its facilities or require the Company to acquire additional costly pollution control equipment, incur other significant expenses or modify its manufacturing processes. The Company has incurred and will continue to incur capital expenditures and operating costs in complying with these laws and regulations. In addition, because the Company generates hazardous wastes during some of its manufacturing processes, the Company, along with any other entity that disposes or arranges for the disposal of the Company s wastes, may be subject to financial exposure for costs associated with any investigation and remediation of sites at which the Company has disposed or arranged for the disposal of hazardous wastes if those sites become contaminated, even if the Company fully complied with applicable environmental laws at the time of disposal. In the event that new contamination is discovered, the Company may become subject to additional requirements with respect to existing contamination or the Company s clean-up obligations.

The Company is also subject to numerous federal, state, local and foreign laws that regulate the manufacture, storage, distribution and labeling of many of the Company s products, including some of the Company s disinfecting, sanitizing and antimicrobial products. Some of these laws require the Company to have operating permits for the Company s production facilities, warehouse facilities and operations. Various federal, state, local and foreign laws and regulations also require the Company to register the Company s products and to comply with specified requirements with respect to those products. If the Company fails to comply with any of these laws and regulations, it may be liable for damages and the costs of remedial actions in excess of the Company s reserves, and may also be subject to fines, injunctions or criminal sanctions or to revocation, non-renewal or modification of the Company s operating permits and revocation of the Company s product registrations. Any such revocation, modification or non-renewal may require the Company to cease or limit the manufacture and sale of its products at one or more of the Company s facilities, which may limit or prevent the Company s ability to meet product demand or build new facilities and may have a material adverse effect on the

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Company s business, financial position, results of operations and cash flows. Any such revocation, non-renewal or modification may also result in an event of default under the indenture for the Company s notes or under the Company s credit facilities, which, if not cured or waived, may result in the acceleration of all the Company s indebtedness.

In addition to the costs of complying with environmental, health and safety requirements, the Company has incurred and may incur in the future costs defending against environmental litigation brought by government agencies and private parties. The Company may be a defendant in lawsuits brought by parties in the future alleging environmental damage, personal injury or property damage. A significant judgment against the Company could harm its business, financial position, results of operations and cash flows. Although the Company has insurance that may cover some of these potential losses, there is always uncertainty as to whether such insurance may be available to the Company based on case-specific factors and the specific provisions of the Company s insurance policies.

The potential cost to the Company relating to environmental, health and safety and product registration matters, including the cost of complying with the foregoing legislation and remediating contamination, is uncertain due to factors such as the unknown magnitude and type of possible contamination and clean-up costs, the complexity and evolving nature of laws and regulations relating to the environment, health and safety and product registration, including those outside of the U.S., and the timing, variable costs and effectiveness of clean-up and compliance methods. Environmental and product registration laws may also become more stringent over time, imposing greater compliance costs and increasing risks and penalties associated with any violation, as well as restricting or prohibiting the sale of existing or new products, which may also negatively impact the Company s operating results. Without limiting the foregoing, these laws or regulations may restrict or prohibit the use of non-renewable or carbon-based substances, or impose fees or penalties for the use of these substances. Accordingly, the Company may become subject to additional liabilities and increased operating costs in the future under these laws and regulations. The impact of any such changes, which are unknown at this time, may have a material adverse effect on the Company s business, financial position, results of operations and cash flows.

Other laws and regulations that apply to the Company may be changed to impose additional requirements beyond those that apply under current laws and regulations, and/or impose additional costs or have negative financial effects on the Company. Such changes, which are unknown at this time and beyond the Company s reasonable control, could have a material impact on the Company.

The Company s inability to estimate and maintain appropriate levels of reserves for existing and future contingencies may materially and adversely affect the Company s business, financial position, results of operations and cash flows.

The levels of reserves maintained by the Company for pending and threatened legal proceedings are estimates based on various assumptions. An adverse ruling or external forces such as changes in the rate of inflation, the regulatory environment and other factors that could prove such assumptions to be incorrect may affect the accuracy of these estimates. Given the uncertainties inherent in such estimates, the Company s actual liabilities could differ significantly from the amounts the Company reserved to cover any existing and future contingencies. If the Company s actual liability is higher than estimated or any new legal proceeding is initiated, it could materially and adversely affect the Company s business, financial position, results of operations and cash flows.

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We have a material amount of indebtedness and may incur additional indebtedness, or need to refinance existing indebtedness, in the future, which may adversely affect the Company s business and operations.

The Company has a material amount of indebtedness and may incur additional indebtedness in the future. As of December 31, 2009, the Company s domestic debt included $73.9 million in unsecured promissory notes with maturities extending from 2010 until 2018 and $28.5 million in a bank term loan. In addition, to provide liquidity, the Company has a $60 million revolving credit facility, under which there were no borrowings as of December 31, 2009.

The Company s foreign subsidiaries also 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 December 31, 2009, the Company s foreign subsidiaries aggregate outstanding debt totaled $1.7 million.

The Company s current indebtedness and any additional indebtedness incurred in the future may materially and adversely affect its business and operations. For example, it could:

- require the Company to dedicate a substantial portion of cash flow from operations to pay principal and interest on the Company s debt, which would reduce funds available to fund future working capital, capital expenditures and other general operating requirements;
- limit the Company s ability to borrow funds that may be needed to operate and expand its business;
- limit the Company s flexibility in planning for or reacting to changes in the Company s business and the industries in which the Company operates;
- increase the Company s vulnerability to general adverse economic and industry conditions or a downturn in the Company s business; and
- place the Company at a competitive disadvantage compared to its competitors that have less debt.

The Company s loan agreements contain provisions, which, among others, require maintenance of certain financial ratios and place limitations on additional debt, investments and payment of dividends. Failure to comply with these loan agreements would require debt restructuring that could be materially adverse to the Company s financial position, results of operations and cash flows. Additionally, any future disruptions in the credit and financial markets may reduce the availability of debt financing or refinancing and increase the costs associated with such financing. If the Company is unable to secure financing on satisfactory terms, or at all, its financial positions, results of operations and cash flows may be adversely affected.

Downturns in certain industries and general economic downturns may have an adverse effect on the Company s business, financial position, results of operations and cash flows.

Recent disruptions in the credit markets have had a significant negative impact on global financial markets that have resulted in a global economic downturn. Economic downturns

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adversely affect some users of the variety of end products that are manufactured using the Company s products and the industries in which end products are used. These users may reduce their volume of purchases of such end products during economic downturns, which would reduce demand for the Company s products. Additionally, current conditions in the credit markets pose a risk to the overall economy that may impact consumer and customer demand of some of the Company s products, as well as the Company s ability to manage normal commercial relationships with its customers, suppliers and creditors. Some of the Company s customers may not be able to meet the terms of sale and suppliers may not be able to fully perform their contractual obligations due to tighter credit markets or a general slowdown in economic activity.

In the event that the current conditions of the financial and credit markets continue or worsen, or result in a prolonged economic downturn or recession, the Company s results of operations, cash flows and financial position may be materially and adversely affected**.**

Various liability claims could materially and adversely affect the Company s financial position, operating results and cash flows.

The Company may be required to pay for losses or injuries purportedly caused by its products. The Company faces an inherent exposure to various types of claims including general liability, product liability, toxic tort and environmental (claims), among others, if its products, or the end products that are manufactured with the Company s products, result in property damage, injury or death. Various claims may be made against the Company even if there is no evidence that its products cause a loss. Claims could result in significant expenses relating to defense costs or damages awards and in a diversion of management s time and the Company s resources. Any claim brought against the Company, net of potential insurance recoveries, could materially and adversely affect the Company s financial position, results of operations and cash flows.

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Item 1B. Unresolved Staff Comments

None

Item 2. Properties

The following properties are owned by the Company:

	Name of Plant	Location	Site Size	Product
1.	Millsdale	Millsdale (Joliet), Illinois	492 acres	Surfactants/Polymers
2.	Fieldsboro	Fieldsboro, New Jersey	45 acres	Surfactants
3.	Anaheim	Anaheim, California	8 acres	Surfactants
4.	Winder	Winder, Georgia	202 acres	Surfactants
5.	Maywood	Maywood, New Jersey	19 acres	Surfactants / Specialty Products
6.	Stepan France	Grenoble, France	20 acres	Surfactants
7.	Stepan Mexico	Matamoros, Mexico	13 acres	Surfactants
8.	Stepan Germany	Cologne, Germany	12 acres	Surfactants/Polymers
9.	Stepan UK	Stalybridge (Manchester), United Kingdom	11 acres	Surfactants
10.	Stepan Colombia	Manizales, Colombia	5 acres	Surfactants
11.	Company s Headquarters and Central Research Laboratories	Northfield, Illinois	8 acres	N/A
12.		Northbrook,	3.25 acres	N/A

Company s Corporate Supply Chain, Human Resources, Legal and Finance Functions	Illinois

In addition, Stepan Canada Inc., which manufactures surfactants, is located on a 70 acre leased, with an option to purchase, site in Longford Mills, Ontario, Canada. Also, Stepan Canada, Inc. maintains a leased sales office in Burlington, Ontario, Canada. Stepan Mexico maintains a leased sales office in Mexico City, Mexico. Stepan China, a majority-owned joint venture that produces polymers, is located on a four acre leased site in Nanjing, China. Stepan China also maintains a leased sales office in Shanghai, China. Under the terms of the purchase contract for its January 2005 acquisition, Stepan Brazil leases a surfactants manufacturing facility on 27 acres of land in Vespasiano, Minas Gerais, Brazil. At the end of the 10-year lease agreement, the assets will be transferred and assigned to Stepan Brazil. Stepan Brazil also leases a small office in an office building in San Paulo, Brazil. The Company s 50 percent owned joint venture in the Philippines manufactures surfactants on nine acres of land under a long term lease with the Company s joint venture partner.

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Item 3. Legal Proceedings

There are a variety of legal proceedings pending or threatened against the Company that occur in the normal course of the Company s business, the majority of which relate to environmental matters. 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 U.S. Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA) and the Superfund amendments of 1986 (Superfund). Over the years, the Company has received requests for information relative to or has been named by the government as a potentially responsible party at a number of 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 these sites. For most of these sites, the involvement of the Company is expected to be minimal. The most significant sites are described below:

Maywood, New Jersey Site

The Company s property in Maywood, New Jersey and property formerly owned by the Company adjacent to its current site and other nearby properties (Maywood site) were listed on the National Priorities List in September 1993 pursuant to the provisions of CERCLA because of certain alleged chemical contamination. Pursuant to an Administrative Order on Consent entered into between 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 Feasibility Study for Soil and Source Areas (Operable Unit 1) in September 2002. In addition, the Company has submitted other documentation and information as requested by USEPA, including a Draft Final FS for Groundwater (Operable Unit 2) in June 2003, additional information regarding groundwater in May 2007, submission of a Draft Feasibility Study for Soil and Groundwater (Operable Units 1 and 2) in March 2009, and additional requested information regarding soil and groundwater in January 2010. The Company is awaiting the issuance of a Record of Decision from USEPA.

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 Maywood site related to remediation of chemical contamination. However, depending on the results of the ongoing discussions with USEPA, the final cost of such remediation could differ from the current estimates.

In addition, under the terms of a settlement agreement reached on November 12, 2004, the United States Department of Justice and the Company agreed to fulfill the terms of a Cooperative Agreement reached in 1985 under which the United States will take title to and responsibility for radioactive waste removal at the Maywood site, including past and future remediation costs incurred by the United States.

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D Imperio Property Site

During the mid-1970 s, Jerome Lightman and the Lightman Drum Company disposed of hazardous substances at several sites in New Jersey. The Company was named as a potentially responsible party (PRP) in the case *United States v. Lightman* (1:92-cv-4710 D.N.J.), which involved the D Imperio Property Site located in New Jersey. In the second quarter of 2007, the Company reached an agreement with respect to the past costs and future allocation percentage in said litigation for costs related to the D Imperio site, including costs to comply with USEPA s Unilateral Administrative Orders. The Company paid the settlement amount in the third quarter of 2007**.** The resolution of the Company s liability for this litigation did not have a material impact on the financial position, results of operations or cash flows of the Company. In December 2007, the Company received updated remediation cost estimates, which were considered in the Company s determination of its range of estimated possible losses and reserve balance.

Remediation work is continuing at this site. Based on current information, the Company believes that it has adequate reserves for claims associated with the D Imperio site. However, actual costs could differ from current estimates.

Ewan Property Site

The case *United States v. Lightman* (1:92-cv-4710 D.N.J.), described above for the D Imperio site, also involved the Ewan Property Site located in New Jersey. The agreement described above also included a settlement with respect to the past costs and future allocation percentage in said litigation for costs related to the past costs and allocation percentage at the Ewan site. The Company paid the settlement amount in the third quarter of 2007. The resolution of the Company s liability for this litigation did not have a material impact on the financial position, results of operations or cash flows of the Company.

In addition, the NJDEP filed a natural resource damages complaint in June 2007 against the Company and other entities regarding the Ewan site. The Company was served with the complaint in May 2008. The parties, including the Company, are engaged in discussions with NJDEP to resolve this litigation.

There is some monitoring and operational work continuing at the Ewan site. Based on current information, the Company believes that it has adequate reserves for claims associated with the Ewan site. However, actual costs could differ from current estimates.

Lightman Drum Company Superfund Site

The Company received a Section 104(e) Request for Information from USEPA dated March 21, 2000, regarding the Lightman Drum Company Superfund 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 participated in the performance of the RI/FS as a member of the Lightman Yard PRP Group. The RI/FS was performed under an interim allocation. The allocation has not yet been finalized by the Lightman Yard PRP Group. The Company believes that it is unlikely that an allocation change would have a material effect on Company financial position, results of operations or cash flows.

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In the fourth quarter of 2007, the PRPs who agreed to conduct the interim remedial action entered into an Administrative Settlement Agreement and Order on Consent for Removal Action with USEPA, and these PRPs also entered into a Supplemental Lightman Yard Participation and Interim Funding Agreement to fund the agreed-upon removal action. The Company paid a soil removal assessment upon execution of the agreements which did not have a material impact on the financial position, results of operations or cash flows of the Company. The soil removal action was completed and USEPA approved it in October 2009. A final Feasibility Study was submitted to USEPA in February 2009 and was approved in March 2009. In June 2009, USEPA issued a Proposed Plan for Remediation. In September 2009, USEPA signed the Record of Decision.

The Company believes that based on current information it has adequate reserves for claims associated with the Lightman site. However, actual costs could differ from current estimates.

Wilmington Site

The Company is currently contractually obligated to contribute to the response costs associated with the Company s formerly-owned site at 51 Eames Street, Wilmington, Massachusetts. Remediation at this site is being managed by its current owner to whom the Company sold the property in 1980. Under the agreement, once total site remediation costs exceed certain levels, 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. To date, the Company has paid the current owner $1.8 million for the Company s portion of environmental response costs through the third quarter of 2009 (the current owner of the site bills the Company one calendar quarter in arrears). The Company has recorded a liability for its portion of the estimated remediation costs for the site. 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, in response to the special notice letter received by the PRPs in June 2006 from USEPA seeking performance of an RI/FS at the site, certain PRPs, including the Company, signed an Administrative Settlement Agreement and Order on Consent for the RI/FS effective July 2007, which sets forth the obligations of the PRPs to perform the RI/FS.

The Company and other prior owners also 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.

The Company believes that based on current information it has adequate reserves for the claims related to this site.

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Other Sites

The Company has been named as a de minimis PRP at other sites, and as such the Company believes that a resolution of its liability will not have a material impact on the financial position, results of operations or cash flows of the Company.

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Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of stockholders during the fourth quarter of the fiscal year ended December 31, 2009.

Executive Officers of the Registrant

Executive Officers are elected annually by the Board of Directors at the first meeting following the Annual Meeting of Stockholders to serve until the next annual meeting of the Board and until their respective successors are duly elected and qualified.

The Executive Officers of the Company, their ages as of February 26, 2010, and certain other information are as follows:

Name	Age	Title	Year First Elected Officer
F. Quinn Stepan	72	Chairman	1967
F. Quinn Stepan, Jr.	49	President and Chief Executive Officer	1997
John V. Venegoni	51	Vice President and General Manager Surfactants	1999
Robert J. Wood	52	Vice President and General Manager Polymers	2001
James E. Hurlbutt	56	Vice President and Chief Financial Officer	2002
Frank Pacholec	54	Vice President, Research and Development	2003
Gregory Servatius	50	Vice President, Human Resources	2006
H. Edward Wynn	49	Vice President, General Counsel and Secretary	2007

F. Quinn Stepan is an executive officer of the Company and Chairman of the Company s Board of Directors. He served the Company as Chairman and Chief Executive Officer from 1984 through 2005.

F. Quinn Stepan, Jr., has served the Company as President and Chief Executive Officer since January 2006. He served the Company as President and Chief Operating Officer from 1999 through 2005.

John V. Venegoni has served the Company as Vice President and General Manager Surfactants since February 1999.

Robert J. Wood has served the Company as Vice President and General Manager Polymers since January 2001.

James E. Hurlbutt has served the Company as Vice President and Chief Financial Officer since February 12, 2008. From February 2005 until February 2008, he served the Company as Vice President Finance. From February 2002 until February 2005, he served the Company as Vice President and Controller.

Frank Pacholec has served the Company as Vice President, Research and Development since April 2003.

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Gregory Servatius has served the Company as Vice President, Human Resources since February 2006. From April 2003 until January 2006, he served as Vice President, Surfactant Sales.

H. Edward Wynn has served the Company as Vice President, General Counsel and Secretary since January 9, 2007. From 2005 until 2006, he served as Chief Administrative Officer and General Counsel with Heritage Development Partners, LLC. From 2003 until 2005, he served as Chief Administrative Officer and General Counsel with the Illinois Department of Central Management Services.

Anthony J. Zoglio served the Company as Vice President Supply Chain from November 2003 until his retirement on February 15, 2010.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

(a) The Company s common stock is listed and traded on both the New York Stock Exchange and the Chicago Stock Exchange. See table below for New York Stock Exchange quarterly market price information.

Quarterly Stock Data

	Stock Price Range			
	2009		*2008*	
Quarter	**High**	***Low***	***High***	***Low***
First	**$ 48.41**	**$ 22.80**	$ 38.51	$ 27.75
Second	**$ 45.99**	**$ 26.34**	$ 46.45	$ 37.23
Third	**$ 62.98**	**$ 39.74**	$ 60.82	$ 41.74
Fourth	**$ 67.98**	**$ 54.23**	$ 55.27	$ 28.62
Year	**$ 67.98**	**$ 22.80**	$ 60.82	$ 27.75

The Company s 5 1/2 percent convertible preferred stock is listed and traded on the New York Stock Exchange and the Chicago Stock Exchange. See Note 10, Stockholders Equity of the Consolidated Financial Statements (Item 8 of this Form 10-K) for a description of the preferred stockholders rights.

On February 11, 2009, the Company s Board of Directors authorized the Company to repurchase up to 500,000 shares of its outstanding common stock, or the equivalent in shares of the Company s preferred stock. This repurchase authorization replaced the 300,000 share authorization approved on February 10, 2004, of which the remaining unutilized repurchase authorization of 111,256 shares was cancelled. The Company will repurchase shares from time to time for cash in open market or private transactions in accordance with applicable securities and stock exchange rules. The repurchase authorization represents approximately five percent of the Company s total shares of common stock outstanding. The timing and amount of the repurchases will be determined by the Company s management based on their evaluation of market conditions and share price. During 2009, 50,474 shares of Company common stock were purchased in the open market, 35,235 shares of common stock were received in lieu of cash from employees exercising stock options, and 13,852 shares of common stock were received to settle employees minimum statutory withholding taxes related to performance stock awards. The purchased and received shares were recorded as treasury stock in the Company s balance sheet. As of December 31, 2009, 400,439 shares remain to be purchased under the repurchase authorization.

(b) On January 31, 2010, there were 1,303 holders of record of common stock of the Company.

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(c) Below is a summary by month of share purchases by the Company during the fourth quarter of 2009:

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
October				
November	10,729 [(a)]	$ 59.86		
December	1,672 [(a)]	$ 59.95		

(a) Purchased on the open market.

(d) See table below for quarterly dividend information. Also, see Note 6, Debt and Note 10, Stockholders Equity of the Consolidated Financial Statements (Item 8 of this Form 10-K), which sets forth the restrictive covenants covering dividends.

Dividends Declared Per Common Share

Quarter	*2009*	*2008*
First	**22.00¢**	21.00¢
Second	**22.00¢**	21.00¢
Third	**22.00¢**	21.00¢
Fourth	**24.00¢**	22.00¢
Year	**90.00¢**	85.00¢

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(e) Stock Performance Graph

The following stock performance graph compares the yearly change since December 31, 2004, in cumulative return on the Common Stock of the Company on a dividend reinvested basis to the Dow Jones Chemical Industry Index and the Russell 2000 Index. The Dow Jones Chemical Industry Index is a market-capitalization weighted grouping of 37 chemical companies, including major manufacturers of both basic and specialty products. Stepan Company is not included in the Dow Jones Chemical Industry Index. The Russell 2000 Index is a market-capitalization weighted grouping of 2,000 small to medium sized companies in a broad range of industries. Stepan Company was a part of the Russell 2000 Index during 2009. The graph assumes $100 was invested on December 31, 2004, and shows the cumulative total return as of each December 31 thereafter.

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Item 6. Selected Financial Data

See the table below for selected financial information.

(In thousands, except per share and employee data)

For the Year	***2009***	***2008***	***2007***	***2006***	***2005***
Net Sales	**$ 1,276,382**	$ 1,600,130	$ 1,329,901	$ 1,172,583	$ 1,078,377
Operating Income	**104,888**	70,680	35,095	15,853	25,468
Percent of Net Sales	**8.2%**	4.4%	2.6%	1.4%	2.4%
Income Before Provision for Income Taxes	**97,131**	54,878	23,715	7,389	17,646
Percent of Net Sales	**7.6%**	3.4%	1.8%	0.6%	1.6%
Provision for Income Taxes	**34,028**	17,615	8,687	900	4,170
Income Before Cumulative Effect of Change in Accounting Principle	**63,049**	37,172	15,118	6,670	13,529
Per Diluted Share [(a)]	**5.84**	3.52	1.50	0.63	1.39
Net Income Attributable to Stepan Company	**63,049**	37,172	15,118	6,670	13,159
Per Diluted Share [(a)]	**5.84**	3.52	1.50	0.63	1.35
Percent of Net Sales	**4.9%**	2.3%	1.1%	0.6%	1.2%
Percent to Total Stepan Company Stockholders Equity [(b)]	**25.3%**	17.9%	7.8%	3.8%	7.9%
Percent Return on Invested Capital [(c)]	**14.41%**	8.21%	5.92%	4.51%	5.60%
Cash Dividends Paid	**9,557**	8,863	8,431	8,149	7,869
Per Common Share	**0.9000**	0.8500	0.8250	0.8050	0.7850
Depreciation and Amortization	**37,171**	36,928	37,176	38,384	38,769
Capital Expenditures	**42,631**	49,778	39,815	45,970	41,519
Weighted-average Common Shares Outstanding (Diluted)	**10,796**	10,549	10,113	9,284	9,725
As of Year End					
Working Capital	**$ 186,297**	$ 116,288	$ 92,954	$ 87,974	$ 96,344
Current Ratio	**2.1**	1.5	1.5	1.5	1.6
Property, Plant and Equipment, net	**248,618**	238,166	234,062	225,604	211,119
Total Assets	**634,203**	611,897	573,185	546,055	516,159
Long-term Debt Obligations	**93,911**	104,725	96,939	107,403	108,945
Total Stepan Company Stockholders Equity	**289,285**	208,144	206,051	180,786	166,834
Per share [(d)]	**27.36**	20.27	20.69	18.33	17.19
Number of Employees	**1,594**	1,578	1,525	1,528	1,510

(a) Based on weighted-average number of common shares outstanding during the year.
(b) Based on average equity.
(c) Defined as net operating profit after taxes divided by invested capital.
(d) Based on common shares and the assumed conversion of the convertible preferred shares outstanding at year end.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Some information contained in the Management s Discussion and Analysis is forward looking and involves risks and uncertainties. The Company operates in a cyclical industry and the results achieved this year are not necessarily an indication of future prospects for the Company. Actual results in future years may differ materially from the results presented below. 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, outcomes of environmental contingencies, availability of raw materials, the ability to pass on raw material price increases, foreign currency fluctuations and general economic conditions.

Overview

The Company produces and sells intermediate chemicals that are used in a wide variety of applications worldwide. The overall business comprises three reportable segments:

Surfactants Surfactants, which accounted for 77 percent of consolidated net sales for 2009, are principal ingredients in consumer and industrial cleaning products such as detergents for washing clothes, dishes, carpets, floors and walls, as well as shampoos, body washes, toothpastes and fabric softeners. Other applications include germicidal quaternary compounds, lubricating ingredients, emulsifiers (for spreading agricultural products), plastics and composites and biodiesel. Surfactants are manufactured at six North American sites (five in the U.S. and one in Canada), three European sites (United Kingdom, France and Germany) and three Latin American sites (Mexico, Brazil and Colombia). The Company holds a 50 percent ownership interest in two joint ventures, Stepan Philippines and TIORCO, LLC, that are excluded from surfactant segment operating results. The joint ventures are accounted for under the equity method.

Polymers Polymers, which accounted for 20 percent of consolidated net sales for 2009, include two primary product lines: polyols and phthalic anhydride. Polyols are used in the manufacture of laminate insulation board for the construction industry and are also sold to the appliance, flexible foam and coatings, adhesives, sealants and elastomers (C.A.S.E.) industries. Phthalic anhydride is used in unsaturated polyester resins, alkyd resins and plasticizers for applications in construction materials and components of automotive, boating and other consumer products. In the U.S., polymer product lines are manufactured at the Company s Millsdale, Illinois, site. Polyols are also manufactured at the Company s Wesseling (Cologne), Germany facility, as well as at its 80-percent owned joint venture in Nanjing, China (which is included in consolidated results).

Specialty Products Specialty products, which accounted for three percent of consolidated net sales for 2009, include flavors, emulsifiers and solubilizers used in the food and pharmaceutical industries. Specialty products are manufactured primarily at the Company s Maywood, New Jersey, site.

Despite the continued challenges of the global economic recession, the Company achieved record net income for the year ended December 31, 2009. The economic slowdown continued to negatively affect sales volume, which was down eight percent year over year. Sales volume for the Company s polymers segment fell 16 percent behind last year s levels, as activity in the industries into which the segment sells (roofing insulation, construction materials, automotive and recreational vehicles, etc.) was down. Management expects polymer sales volume recovery to be slow. The recession has had a lesser effect on sales volume for the surfactants segment, as surfactants used in cleaning compounds have historically been more recession resistant. Consolidated surfactant sales volume dropped seven percent between years primarily as a result of lower volumes for biodiesel and construction and oilfield applications. Sales volume for the Company s largest market segment, consumer laundry and personal care, slightly exceeded 2008 levels. Lower year-over-year raw material costs, resulting from the effects of the economic recession on commodities, benefited all segments, as the effect of lower costs more than offset the effect of lower sales volume. During the second half of 2009, the costs of crude and natural oils and their derivative products began to rise, prompting management to increase selling prices for many of the Company s surfactant and polymer products. During 2009, the Company also implemented cost saving initiatives to reduce spending for items such as overtime, travel and entertainment, outside consulting and temporary help.

Deferred Compensation Plans

The accounting for the Company s deferred compensation plans can cause period-to-period fluctuations in Company expenses and profits. For 2009, compensation expense related to the Company s deferred compensation plans, which is reported in the administrative expense line of the consolidated income statement, was $6.8 million and $4.7 million higher than deferred compensation expense reported for 2008 and 2007, respectively. The Company common stock price, to which a large portion of the deferred compensation obligation is tied, was $64.81 at December 31, 2009, compared to $46.99 at December 31, 2008 and $32.53 at December 31, 2007. The pretax effect of all deferred compensation-related activities (which includes realized and unrealized gains and losses on the mutual fund assets held to fund the deferred compensation obligations) and the income statement line items in which the effects were recorded are displayed below (see the Corporate Expenses section of this management discussion and analysis for further details):

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(Dollars in millions)	**(Income) / Expense For the Years Ended December 31 2009**	**2008**	**2007**
Deferred Compensation (Administrative expense)	**$ 7.0**	$ 0.2	$ 2.3
Investment Income (Other, net)	**(0.1)**	(0.3)	(1.1)
Realized/Unrealized (Gains) / Losses on Investments (Other, net) [(a)]	**(1.9)**	5.0	(0.1)
Net Pre-tax Income Effect	**$ 5.0**	$ 4.9	$ 1.1

(a) On January 1, 2008, the Company elected the fair value option for the mutual fund investment assets held for its deferred compensation plans. As a result, unrealized gains and losses for the mutual funds are recorded in the income statement beginning in 2008. In 2007 and prior years, the unrealized gains were reported in accumulated other comprehensive income in the equity section of the balance sheet. The 2007 amount in the table reflects only the realized gain for the year. See the Critical Accounting Policies section of this Management Discussion and Analysis for additional information.

Effects of Foreign Currency Translation

The Company s foreign subsidiaries transact business and report financial results in their respective local currencies. As a result, foreign subsidiary income statements are translated into U.S. dollars at average foreign exchange rates appropriate for the reporting period. Because foreign exchange rates fluctuate against the U.S. dollar over time, foreign currency translation affects period-to-period comparisons of financial statement items (i.e. because foreign exchange rates fluctuate, similar period-to-period local currency results for a foreign subsidiary may translate into different U.S. dollar results). For the year ending December 31, 2009, the U.S. dollar strengthened against nearly all the foreign currencies in the locations where the Company does business, when compared to the exchange rates for year ending December 31, 2008. Consequently, reported net sales, expense and income amounts for 2009 were lower than they would have been had the foreign currency exchange rates remained constant with the rates for 2008. Conversely, for the year ending December 31, 2008, the U.S. dollar weakened against nearly all the foreign currencies in the locations where the Company does business, when compared to the exchange rates for year ending December 31, 2007. Below are tables that present the impact that foreign currency translation had on the changes in consolidated net sales and various income line items for 2009 compared to 2008 and for 2008 compared to 2007:

(In millions)	**Year Ended December 31 2009**	**2008**	**Increase (Decrease)**	**Inc (Dec) Due to Foreign Translation**
Net Sales	$ 1,276.4	$ 1,600.1	$ (323.7)	$ (49.2)
Gross Profit	233.1	169.5	63.6	(7.8)
Operating Income	104.9	70.7	34.2	(5.2)
Pretax Income	97.1	54.9	42.2	(5.4)

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(In millions)	The Year Ended December 31 2008	2007	Increase (Decrease)	Inc (Dec) Due to Foreign Translation
Net Sales	$ 1,600.1	$ 1,329.9	$ 270.2	$ 12.0
Gross Profit	169.5	141.4	28.1	2.6
Operating Income	70.7	35.1	35.6	1.8
Pretax Income	54.9	23.7	31.2	1.5

Significant Transactions during the Reporting Period

A number of events having significant effects on the Company s results of operations occurred in 2008 and 2007. The following are descriptions of those events:

Sale of Commodity Polyurethane Systems Product Lines

On July 31, 2008, the Company sold select polyurethane system product lines, which were a part of the polymer segment, to Bayer MaterialScience LLC (Bayer). No manufacturing assets were included in the sale and no employees were terminated. The sold product lines were insulation materials used in appliances, water heaters, doors, roofs, picnic coolers and other similar applications, and represented approximately $16.0 million in Company annual net sales. The products, which are manufactured at the Company s Millsdale, Illinois, facility, continue to be produced for Bayer during a transition period of up to two years. The sale was for $9.9 million of cash, which the Company reported as a pretax gain in the third quarter ended September 30, 2008. The Company continues to produce and sell polyurethane systems for specialty applications. See Note 19 in the Notes to Condensed Consolidated Financial Statements for additional information.

Sale of Land

In September 2008, the Company sold 88 acres of land at its Millsdale manufacturing facility in Elwood, Illinois, to an industrial park developer for $8.6 million. The land had a cost basis of $0.1 million, so the Company recorded a pretax gain of $8.5 million in the third quarter ended September 30, 2008. The gain was not attributed to any reportable segment. For income tax purposes, the land disposition and the acquisition of an office building near the Company s corporate headquarters were structured as a tax-deferred like-kind exchange, pursuant to Section 1031 of the Internal Revenue Code. See Note 20 in the Notes to Condensed Consolidated Financial Statements for additional information.

Sale of Specialty Esters Product Line

On April 30, 2007, the Company sold its specialty ester surfactant product line for the personal care market to The HallStar Company (formerly CPH Holding Corporation). No physical assets were included in the sale. The product line represented approximately $15.0 million in Company annual net sales. The sale was for $6.2 million of cash plus the transfer to the Company of a specialty agricultural surfactant product line. As a result of the sale, the Company reported a $4.2 million pretax gain in 2007. The gain was net of related write-downs for equipment and inventory as well as severance charges and a provision for expected losses on the fulfillment of a manufacturing agreement (completed in 2008) associated with the product line sale. See Note 19 in the Notes to Condensed Consolidated Financial Statements for additional information.

Goodwill Impairment

As a result of performing the annual test of goodwill impairment required by U.S. generally accepted accounting principles in 2007, the Company determined that the goodwill reported for Stepan UK, a reporting unit of the Company s surfactants segment, was impaired. The amount of the impairment was $3.5 million, the entire balance of goodwill for Stepan UK. As a result, a $3.5 million non-cash goodwill impairment loss was recorded in 2007. The goodwill impairment reflected an estimated reduction in the fair value of Stepan UK s business as a result of lower discounted cash flow forecasts at that time. Improvements in operating results were lower than previous forecasts used to test for impairments. See Note 4 in the Notes to Condensed Consolidated Financial Statements for additional information.

RESULTS OF OPERATIONS

2009 Compared with 2008

Summary

Net income for 2009 improved 70 percent to a record $63.0 million, or $5.84 per diluted share, compared to $37.2 million, or $3.52 per diluted share, for 2008. Prior year net income benefited from $11.3 million (net of tax) of gains on the previously discussed sales of the polyurethane systems product lines and Millsdale land. Below is a summary discussion of the major factors leading to the year-to-year changes in net sales, profits and expenses. A detailed discussion of segment operating performance for 2009 follows the summary.

Consolidated net sales declined $323.7 million, or 20 percent, between years. A decline in average selling prices, lower sales volume and the effects of foreign currency translation accounted for approximately $142.5 million, $132.0 million and $49.2 million, respectively, of the year-to-year decrease in net sales. Sales volumes fell eight percent, reflecting the effects of the global recession. By segment, polymer and surfactant sales volumes dropped 16 percent and seven percent, respectively, while sales volume for specialty products was up nine percent year over year. The decline in average selling prices was principally the result of falling commodity raw material costs.

Operating income for 2009 was $34.2 million, or 48 percent, greater than operating income for 2008 despite the 2008 $9.9 million and $8.5 million gains reported on the sales of the polyurethane product lines and Millsdale land, respectively. Gross profit was up $63.6 million, or 37 percent. All three segments contributed to the improvement in gross profit. Surfactants segment gross profit was up $48.3 million, or 40 percent; polymers segment gross profit increased $9.7 million, or 23 percent; and gross profit for the specialty products segment was up $7.0 million, or 77 percent. Lower raw material and freight costs and Company cost reduction initiatives benefited all segments. The effects of foreign currency translation reduced the year-to-year consolidated gross profit improvement by approximately $7.8 million.

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Operating expenses increased $29.4 million, or 30 percent, between years. Major items accounting for the expense increase were as follows:

(Dollars in millions)	**Increase / (Decrease)**
2008 Gain on Sale of Product Lines	$ 9.9
2008 Gain on Sale of Land	8.5
Deferred Compensation Expense	6.8
Incentive-based Compensation	5.3
Foreign Currency Translation	(2.3)
Transition Pension Expense	(1.2)
Legal/Environmental Expense	1.1
Other	1.3
Total	$ 29.4

The gains on sales of product lines and land are explained in the Overview section of this MD&A. The increase in deferred compensation expense is discussed in detail in the Corporate Expenses section of this MD&A. Improved operating results caused the rise in incentive-based compensation, which includes stock-based pay, bonuses and profit sharing. The decline in transition pension expense was principally attributable to a 2008 acceleration of a portion of discretionary Company contributions established to compensate certain employees for benefits lost when the Company froze its defined benefit plans in 2006 (no such accelerated benefits were paid in 2009). Legal/environmental expenses were up mainly due to increases in estimated environmental remediation reserve requirements for existing sites.

Interest expense for 2009 was $3.2 million, or 34 percent, less than interest expense for 2008. Lower average debt levels, resulting from a decrease in working capital requirements brought on by lower raw material costs, led to the decline.

The loss from equity joint ventures, which includes results for the 50-percent owned SPI and TIORCO joint ventures, increased $1.0 million, or 38 percent, between years. SPI reported an equity loss of $1.2 million for 2009, which was $1.1 million less than the loss reported in the 2008. The current year included $1.2 million of expense to reserve for value added tax receivable balances that are in dispute with Philippine tax authorities. TIORCO, which was formed in September 2008, reported $2.5 million of equity loss, which was $2.1 million higher than the loss reported in 2008. Planned start-up expenses coupled with lower prices for crude oil in the first six months of 2009 caused the TIORCO result.

Other, net was $2.2 million of income for 2009 compared to $3.6 million of expense for 2008. A $6.7 million favorable swing in investment related income, partially offset by a $0.9 million decline in foreign exchange gains, accounted for the $5.8 million year to year favorable other, net change. Unrealized and realized gains related to the mutual funds held for the Company s deferred compensation plans accounted for the year-to-year change in investment related income as $1.9 million of gains were posted in 2009 compared to losses of $5.0 million for 2008. Dividend income declined $0.2 million between years. Foreign exchange activity resulted in $0.2 million of gains for 2009 compared to $1.1 million of gains for the same period of 2008.

The effective tax rate was 35.0 percent in 2009 compared to 32.1 percent in 2008. The increase in the effective tax rate was primarily attributable to a greater percentage of consolidated

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income being generated in the U.S. where the effective tax rate is higher and the reduction of the tax benefit realized on tax credits and deductions as percentage of income. See Note 9 to the consolidated financial statements for a reconciliation of the statutory U.S. federal income tax rate to the effective tax rate.

Segment Results

(Dollars in thousands)	Surfactants	Polymers	Specialty Products	Segment Results	Corporate	Total
For the year ended						
December 31, 2009						
Net sales	$ 972,647	$ 260,770	$ 42,965	$ 1,276,382		$ 1,276,382
Operating income	98,947	33,957	12,621	145,525	(40,637)	104,888
For the year ended						
December 31, 2008						
Net sales	$ 1,199,438	$ 359,014	$ 41,678	$ 1,600,130		$ 1,600,130
Operating income	52,261	34,103	5,949	92,313	(21,633)	70,680

Surfactants

Surfactants net sales for 2009 declined $226.8 million, or 19 percent, from net sales for 2008. A nine percent decline in average selling prices, a seven percent decrease in sales volume and the effects of foreign currency translation accounted for approximately $100.3 million, $81.4 million and $45.1 million, respectively, of the net sales change. A year-to-year comparison of net sales by region follows:

	For the Year Ended			
(Dollars in thousands)	December 31, 2009	December 31, 2008	Increase / (Decrease)	Percent Change
North America	$ 647,304	$ 810,509	$ (163,205)	-20
Europe	226,138	269,524	(43,386)	-16
Latin America	99,205	119,405	(20,200)	-17
Total Surfactants Segment	$ 972,647	$ 1,199,438	$ (226,791)	-19

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The 20 percent decline in net sales for North American operations was primarily attributable to a 10 percent decrease in sales volume and a nine percent decline in average selling prices, which accounted for $83.6 million and $75.5 million, respectively, of the net sales change. In addition, the effects of foreign currency translation contributed $4.1 million (or one percent) to the decline. A significant drop in biodiesel sales volume accounted for about 51 percent of the total decrease in North American volume. The remaining decrease in sales volume reflected reduced demand for surfactants that have industrial or construction applications, which were negatively impacted by the poor economy. The Company continued to focus its manufacturing resources on more profitable opportunities because of the current unprofitable economic environment for biodiesel. Sales volumes for consumer products, the regions largest market segment, dropped less than one percent despite the difficult economy. Sales of surfactants used in agricultural applications rose eight percent. The decrease in average selling prices reflected lower raw material costs.

Net sales for European operations declined 16 percent due to the effects of foreign currency translation and an eight percent decrease in average selling prices, which accounted for $25.5 million and $20.6 million, respectively, of the net sales decline. The foreign currency impact was caused by the weakening of the European euro and the U.K. pound sterling against the U.S. dollar. Lower raw material costs led to the decline in average selling prices. Sales volume rose one percent between years, mitigating the net sales decline by $2.7 million.

Net sales for Latin American operations declined 17 percent due to the negative effects of foreign currency translation and a five percent decline in average selling prices, which accounted for $15.6 million and $6.6 million, respectively, of the decrease. The currencies for all three Latin American locations weakened against the U.S. dollar, causing the currency translation impact. The lower average selling prices were attributable to sales mix and lower raw material costs. Sales volume was up two percent from year to year, which offset the net sales decline by $2.0 million. Increased sales volume for the Company s Brazil subsidiary, partially offset by declines at the Company s Mexico and Colombia subsidiaries, led to the modest volume gain.

Surfactants operating income for 2009 was $46.7 million greater than operating income for 2008. Gross profit increased $48.3 million due principally to lower raw material costs. Reduced freight expenses and cost reduction initiatives also contributed to the profit improvement. Operating expenses increased $1.6 million, or two percent. Year-to-year comparisons of gross profit by region and total segment operating expenses and operating income follow:

	For the Year Ended			
(Dollars in thousands)	**December 31, 2009**	**December 31, 2008**	**Increase / (Decrease)**	**Percent Change**
Gross Profit				
North America	$ 126,160	$ 85,982	$ 40,178	+47
Europe	30,067	17,843	12,224	+69
Latin America	13,756	17,872	(4,116)	-23
Total Surfactants Segment	$ 169,983	$ 121,697	$ 48,286	+40
Operating Expenses	71,036	69,436	1,600	+2
Operating Income	$ 98,947	$ 52,261	$ 46,686	+89

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The year-over-year increase in gross profit for North American operations was largely attributable to the effects of reduced raw material costs. Lower freight costs and cost saving initiatives also contributed to the improved profitability. The impact of the economic recession moved raw material costs lower since the end of the third quarter of 2008 when costs were at their peak. Lower fuel costs led to the lower freight expenses. The previously discussed 10 percent decline in sales volume partially offset the effect of the lower costs.

The improvement in gross profit for European operations was due to the positive impact of lower raw material and freight costs. A more favorable product mix, which reflected increased fabric softener sales, and the slight sales volume increase, also contributed. The effects of foreign currency translation reduced Europe s year-to-year profit improvement by approximately $3.9 million.

Gross profit for Latin American operations declined due to a $2.1 million negative effect of foreign currency translation and a less favorable mix of sales. The modest increase in sales volume and lower raw material costs partially offset the unfavorable effects of foreign currency translation and sales mix.

Operating expenses for the surfactants segment were up $1.6 million, or two percent, between years. The expense increase was primarily attributable to a $3.4 million increase for European operations reflecting higher marketing ($1.3 million), administrative ($1.3 million) and research and development ($0.8 million) expenses. Increased bad debt provisions and salary expense accounted for the higher marketing expenses. Statutory profit sharing and business tax expenses led to the higher administrative expenses. Higher regulatory compliance costs caused the increase in research and development expenses. Operating expenses for North American operations increased $1.1 million due in large part to higher incentive-based compensation, reflecting the strong profitability of the region. Partially offsetting the foregoing increases were reduced operating expenses for Latin American operations ($0.8 million), due in large part to lower bad debt provisions. The effects of foreign currency translation decreased the year-to- year Surfactants segment operating expenses by $2.1 million.

Polymers

Polymers net sales for 2009 declined $98.2 million, or 27 percent, from net sales for 2008. A 16 percent drop in sales volume, driven by the global economic recession, lower average selling prices and the effects of foreign currency translation accounted for $57.0 million, $37.1 million and $4.1 million, respectively, of the net sales decline. A year-to-year comparison of net sales by region is displayed below:

	For the Year Ended			
(Dollars in thousands)	**December 31, 2009**	**December 31, 2008**	**Increase / (Decrease)**	**Percent Change**
North America	$ 175,915	$ 253,514	$ (77,599)	-31
Europe	72,229	93,072	(20,843)	-22
Asia and Other	12,626	12,428	198	+2
Total Polymers Segment	$ 260,770	$ 359,014	$ (98,244)	-27

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Net sales for North American operations fell 31 percent due to a 21 percent decrease in sales volume coupled with a 12 percent decrease in average selling prices. The reductions in sales volume and average selling prices accounted for $53.2 million and $24.4 million of the net sales decline, respectively. Sales volume for polyols and phthalic anhydride fell 28 percent and five percent, respectively, as a result of the negative impact of the economy. Sales volume for polyurethane systems fell 58 percent as a result of the July 2008 sale of the Company s commodity system product lines. The 12 percent decrease in average selling prices for North American operations reflected lower raw material costs, particularly for phthalic anhydride.

Net sales for European operations declined 22 percent due to a 14 percent drop in average selling prices, a five percent decrease in polyol sales volume and the effects of foreign currency translation, which accounted for $12.0 million, $4.7 million and $4.1 million, respectively, of the reduction in net sales. Lower raw material costs led to the drop in average selling prices. The decrease in sales volume reflected the negative effects that the global recession had on rigid insulation board end-users, particularly in the first half of the year. Sales volumes for the second half of 2009 were up 12 percent from the same period of 2008.

Asia and Other operations net sales were up two percent from year to year due to increased sales volume for the China joint venture partially offset by a decline in average selling prices brought on by lower raw material costs.

Polymer operating income for 2009 declined $0.1 million from operating income reported in 2008. Gross profit increased $9.7 million, or 23 percent, due principally to improved second-half profitability resulting from raw material costs that fell from the historically high levels of a year ago. The effects of foreign currency translation reduced the improvement in gross profit by about $1.2 million. Operating expenses increased $9.9 million as 2008 expenses included the $9.9 million gain on the sale of the polyurethane systems product lines. Below are year-to-year comparisons of gross profit by region and total segment operating expenses and operating income:

	For the Year Ended			
(Dollars in thousands)	**December 31, 2009**	**December 31, 2008**	**Increase / (Decrease)**	**Percent Change**
Gross Profit				
North America	$ 33,821	$ 25,932	$ 7,889	+30
Europe	16,424	14,497	1,927	+13
Asia and Other	1,382	1,471	(89)	-6
Total Polymers Segment	$ 51,627	$ 41,900	$ 9,727	+23
Operating Expenses (1)	17,670	7,797	9,873	+127
Operating Income	$ 33,957	$ 34,103	$ (146)	

(1) 2008 includes the $9.9 million gain on the sale of the commodity polyurethane systems product lines.

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Gross profit for North American operations improved 30 percent due to the positive impact of lower raw material costs that more than offset the effects of lower sales volume. Raw material costs rose significantly throughout the first three quarters of 2008, resulting in profit margin erosion. Raw material prices dropped significantly in the fourth quarter of 2008 as the effects of the economic recession moved commodity prices downward. Lower freight expenses, caused by lower fuel costs, also contributed to the year-over-year gross profit improvement.

Gross profit for European operations increased 13 percent despite the five percent drop in sales volume due primarily to the effects of raw material cost declines caused by the global recession. The negative effect of foreign currency translation tempered the gross profit improvement by $1.1 million.

The $9.9 million increase in operating expenses was due to the positive effect that the prior year gain on the product line sale had on third quarter 2008 expenses. Other expenses were essentially unchanged between years.

Specialty Products

Net sales for 2009 were $1.3 million, or three percent, higher than net sales for 2008. Higher sales volumes for all product lines led to the improvement in net sales. Operating income was up $6.7 million, or 112 percent, between years due to higher sales volumes, lower raw material costs, an improved sales mix resulting from increased sales of high-margin pharmaceutical products and lower plant costs due to the restructuring activities completed in 2007 and 2008.

Corporate Expenses

Corporate expenses, which comprise expenses that are not allocated to the reportable segments, increased $19.0 million, or 88 percent, to $40.6 million for 2009 from $21.6 million for 2008. The following table depicts the major items that accounted for the year-to-year increase in corporate expenses:

(Dollars in millions)	**Increase / (Decrease)**	
2008 Gain on Land Sale	$	8.5 [(a)]
Deferred Compensation		6.8 [(b)]
Legal/Environmental		1.1 [(c)]
Incentive-Based Compensation		1.1 [(d)]
Electric Contract Fair Value Loss		0.9 [(e)]
Other		0.6
Total	$	19.0

(a) Reflects the 2008 gain on the sale of 88 acres of the Millsdale manufacturing facility s land. No such gains were reported in 2009.

(b) Due to increases in the values of Company common stock and the mutual fund assets to which the Company s deferred compensation obligations are tied. The value of Company common stock increased $17.82 per share, from $46.99 per share at December 31, 2008, to $64.81 per share at December 31, 2009.

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(c) Primarily due to increases in estimated environmental remediation reserve requirements for existing sites.
(d) Includes stock-based compensation, bonuses and profit sharing, all of which increased year to year due to the improvement in Company earnings.
(e) Reflects the marking of the value of U.S. electric contracts (treated as derivative instruments for accounting purposes) to market at December 31, 2009 (included in cost of sales).

Results of Operations

2008 Compared with 2007

Summary

Net income for 2008 improved 146 percent to a record $37.2 million, or $3.52 per diluted share, compared to $15.1 million, or $1.50 per diluted share, for 2007. Below is a summary discussion of the major factors leading to the year-to-year changes in net sales, profits and expenses. A detailed discussion of segment operating performance for 2008 follows the summary.

Consolidated net sales for 2008 increased $270.2 million, or 20 percent, over net sales for 2007. All reportable segments reported net sales increases. Higher average selling prices and the favorable effects of foreign currency translation accounted for approximately $278.4 million and $12.0 million, respectively, of the net sales increase. The recovery of higher raw material costs was the principal driver for the increase in average selling prices. A more favorable customer and product mix of sales also contributed. Sales volume fell two percent between years, which reduced the growth in net sales by $20.2 million. The lower sales volume was primarily due to lower phthalic anhydride and biodiesel volume, whereas higher margin products posted sales volume growth. Specialty products was the sole segment reporting an increase in sales volumes, as surfactants and polymers posted volume declines of one percent and two percent, respectively.

Operating income for 2008 was $35.6 million, or 101 percent, greater than 2007 operating income. Gross profit was up $28.1 million, or 20 percent, for the same period. The surfactants segment accounted for essentially all the growth in gross profit. A favorable customer and product mix coupled with selling price increases that continued to recover margin lost in prior years due to rising raw material costs caused the surfactants result. Gross profit for the specialty products segment was up slightly. Lower sales volume and higher raw material and production costs led to a decline in polymer gross profit.

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Operating expenses declined $7.4 million, or seven percent. The following accounted for the decline:

(Dollars in millions)	**Increase / (Decrease)**
Gain on Sale of Systems Product Lines [1]	($ 9.9)
Gain on Sale of Land [1]	(8.5)
2007 Goodwill Impairment [1]	(3.5)
Deferred Compensation Expense	(2.0)
Consulting and Professional Fees	0.9
Transition Pension Expense	1.0
Foreign Currency Translation	1.0
Salaries	1.6
Provision for Bad Debts	2.0
Incentive-based Compensation	3.7
2007 Gain on Sale of Esters Product Line [1]	4.2
Other	2.1
Total	($ 7.4)

(1) See the Overview section of this management discussion and analysis for an explanation of the noted item.

The reduction in deferred compensation expense reflected a large drop in the market values of mutual funds held for the deferred compensation plans, which was somewhat mitigated by a $14.46 per share increase in the price of Company common stock (see the Critical Accounting Policies section of this management discussion and analysis for an explanation of the accounting treatment for the Company s deferred compensation plans). The increase in defined contribution transition pension expense was principally attributable to a Board of Directors-approved acceleration of a portion of discretionary Company contributions established to compensate certain employees for benefits lost when the Company froze its defined benefit plans in 2006 (consolidated pension transition expense was up $2.1 million between years; $1.1 million was allocated to cost of sales). The increase in bad debt expense reflected provision increases for specific customers and reserves for non-specific accounts. Improved operating results led to the rise in incentive-based compensation, which includes stock-based pay, bonuses and profit sharing. The other category primarily comprises the culmination of smaller year-to-year variances for temporary help, agents commissions, travel and entertainment expenses and miscellaneous fringe benefits.

Losses from equity joint ventures, which includes results for the 50-percent owned Stepan Philippines Inc. (SPI) and 50-percent owned TIORCO, LLC joint ventures, increased $2.3 million from 2007 to 2008. SPI s loss increased $1.9 million, which reflected the effects of lower sales volume, unplanned production outages and foreign exchange losses. TIORCO, LLC contributed $0.4 million to the year-to-year increase in losses due to planned start-up costs.

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Other, net expense increased $2.4 million from 2007 to 2008. A $5.9 million drop in investment related income partially offset by a $3.5 million favorable swing in foreign exchange gains and losses, accounted for the expense change. Unrealized losses on the mutual fund investments held for the Company s deferred compensation plans caused $5.0 million of the decline in investment related income. Prior to the Company s January 1, 2008, election of fair value accounting treatment for mutual fund investment assets, unrealized investment gains and losses were recorded directly to the equity section of the consolidated balance sheet. Lower capital gains distributions made by the mutual funds in 2008 than in 2007 accounted for the remainder of the investment income decline. Much of the favorable swing in foreign exchange gains and losses was attributable to the impact that a strengthening of the US dollar against the Canadian dollar had on a US dollar-denominated receivable carried on Stepan Canada s books.

The effective tax rate was 32.1 percent for 2008 compared to 36.6 percent for 2007. The rate for 2007 was unusually high due to the recording of a charge for UK goodwill impairment for which no tax benefit was realized.

Segment Results

(Dollars in thousands)	Surfactants	Polymers	Specialty Products	Segment Results	Corporate	Total
For the year ended						
December 31, 2008						
Net sales	$ 1,199,438	$ 359,014	$ 41,678	$ 1,600,130		$ 1,600,130
Operating income	52,261	34,103	5,949	92,313	(21,633)	70,680
For the year ended						
December 31, 2007						
Net sales	$ 975,726	$ 321,228	$ 32,947	$ 1,329,901		$ 1,329,901
Operating income	29,716	28,044	5,946	63,706	(28,611)	35,095

Surfactants

Surfactants net sales for 2008 increased $223.7 million, or 23 percent, over net sales for 2007. Higher average selling prices and the favorable effects of foreign currency translations accounted for approximately $233.3 million and $4.3 million, respectively, of the change. Sales volume dropped one percent, which reduced the growth in net sales by about $13.9 million. A year-to-year comparison of net sales by region follows:

	For the Year Ended			
(Dollars in thousands)	December 31, 2008	December 31, 2007	Increase / (Decrease)	Percent Change
North America	$ 810,509	$ 650,194	$ 160,315	+25
Europe	269,524	228,970	40,554	+18
Latin America	119,405	96,562	22,843	+24
Total Surfactants Segment	$ 1,199,438	$ 975,726	$ 223,712	+23

Net sales for North American operations increased 25 percent between years due to a 26 percent increase in average selling prices. Higher selling prices accounted for approximately

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$167.6 million of the net sales growth. A one percent decline in sales volume reduced the net sales growth by $7.3 million. The increase in average selling prices reflected price increases related primarily to rising material costs and a more favorable customer and product mix of sales. A 24 percent drop in biodiesel sales volume was the major contributor to the one percent decline in North American sales volume. Most other major product lines except laundry and cleaning products were also down between years. Sales volumes for laundry and cleaning products, North American operations largest product line, increased 12 percent due to higher sales volume of fabric softener and new business.

The 18 percent increase in net sales for European operations was attributable to a 22 percent increase in average selling prices and the favorable effect of foreign currency translation, which accounted for $48.5 million and $1.8 million, respectively, of the increase. Sales volume declined four percent, reducing the growth of net sales by $9.7 million. Selling price increases, related primarily to rising material costs, and a more favorable customer and product mix of sales caused the increase in average selling prices. Both the France and UK subsidiaries contributed to the decline in sales volume, which resulted from business lost due to price competition and to the slowdown in business for two large customers.

Net sales for Latin American operations increased 24 percent due to a 22 percent improvement in average selling prices, the favorable effects of foreign currency translation and a two percent rise in sales volume, which accounted for about $19.4 million, $1.9 million, and $1.5 million, respectively, of the net sales increase. Selling price increases related to higher raw material costs led to the improved average selling prices. Additional business for the Company s Brazil and Colombia subsidiaries, partially offset by lower fabric softener sales volume for the Company s Mexico subsidiary, drove the sales volume gain.

Surfactants operating income for 2008 was $22.5 million, or 76 percent, higher than operating income for 2007. 2007 operating income included a $4.2 million gain on the sale of the Company s specialty esters product line and a $3.5 million charge for the impairment of Stepan UK s goodwill. Gross profit increased $30.1 million, or 33 percent. All three regions posted higher year-to-year gross profit. Operating expenses increased $7.5 million, or 12 percent. Year-to-year comparisons of gross profit by region and total segment operating expenses and operating income follow:

(Dollars in thousands)	For the Year Ended December 31, 2008	December 31, 2007	Increase / (Decrease)	Percent Change
Gross Profit				
North America	$ 85,982	$ 68,785	$ 17,197	+25
Europe	17,843	14,649	3,194	+22
Latin America	17,872	8,179	9,693	+119
Total Surfactants Segment	$ 121,697	$ 91,613	$ 30,084	+33
Operating Expenses	69,436	61,897	7,539	+12
Operating Income	$ 52,261	$ 29,716	$ 22,545	+76

Gross profit for North American operations improved 25 percent due largely to higher selling prices implemented to recover some margin lost in prior years to rising raw material costs. A more favorable customer and product mix also contributed to the gross profit improvement.

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The regaining of profit margin and the improved sales mix more than offset the effect of the one percent decline in sales volume. Most of the profit improvement occurred in the first three quarters of 2008. Fourth quarter 2008 gross profit fell $3.0 million, or 17 percent, from fourth quarter 2007 gross profit. Much of the quarter-to-quarter decrease was attributable to declining biodiesel profitability resulting from the consumption of high priced raw material inventories as falling crude oil and diesel prices drove biodiesel selling prices lower.

Gross profit for European operations increased 22 percent due to higher average selling prices and a $0.9 million favorable impact of foreign currency translation that more than offset the effect of a four percent decline in sales volume. Selling price increases were made throughout 2008 to recoup some of the profit margin lost in previous years to persistent rising raw material costs. A more favorable mix of sales contributed to the improved gross profit.

Latin American operations gross profit increased 119 percent as a result of gains at all three Latin American subsidiaries. Lower outsourcing costs, higher selling prices and the two percent rise in sales volume led to the improved gross profit. Outsourcing costs were unusually high in the 2007 because Stepan Mexico purchased finished goods for resale while an expansion of its manufacturing facility and product approvals were being completed. The favorable effects of foreign currency translation added approximately $0.4 million to the region s total year-to-year gross profit growth.

Operating expenses for the surfactants segment were up $7.5 million, or 12 percent, from 2007 to 2008. Marketing and research and development expenses for North American operations accounted for approximately $2.7 million and $2.2 million, respectively, of the total operating expense increase. The effects of foreign currency translation added $0.6 million to the rise in operating expenses. Higher incentive-based compensation, pension transition expense and salary expense accounted for most of the North American marketing and research and development expense increases. Higher bad debt expense and consulting fees also contributed to the rise in marketing expense. In addition to the foregoing, $0.7 million of the operating expense increase was attributable to the non-recurring $4.2 million gain on the sale of the specialty esters product line and the $3.5 million goodwill impairment charge that were recorded in 2007.

Polymers

Polymer net sales for 2008 increased $37.8 million, or 12 percent, over net sales for 2007. Higher selling prices and the favorable effects of foreign currency translation accounted for approximately $37.3 million and $7.7 million of the net sales improvement, respectively. Sales volume declined two percent, which reduced the sales improvement by $7.2 million. A year-to-year comparison of net sales by region is displayed below:

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(Dollars in thousands)	For the Year Ended December 31, 2008	December 31, 2007	Increase / (Decrease)	Percent Change
North America	$ 253,514	$ 240,553	$ 12,961	+5
Europe	93,072	69,840	23,232	+33
Asia and Other	12,428	10,835	1,593	+15
Total Polymers Segment	$ 359,014	$ 321,228	$ 37,786	+12

Net sales for North American operations increased five percent as a result of a 14 percent increase in average selling prices partially offset by a seven percent decline in sales volume. The increase in selling prices accounted for approximately $30.5 million of the net sales increase, while the decline in sales volume reduced the growth in net sales by $17.5 million. The higher average selling prices resulted from the recovery of higher raw material costs. The sales volume decline was primarily attributable to lower sales of phthalic anhydride. Sales volume for phthalic anhydride dropped 22 percent due largely to ongoing sluggishness in the unsaturated polyester resins market, which sells products to the automotive, recreational vehicles and boating industries. Sales volume for polyols, the largest polymer product line, increased six percent as demand from existing roofing insulation customers remained strong, particularly through the first three quarters of 2008. Demand was down in the fourth quarter of 2008 due to the downturn in the overall economy and to delayed order patterns in anticipation of lower January 2009 prices. Sales volume of polyurethane systems products fell 21 percent as a result of the July 2008 sale of the Company s commodity system product lines.

Net sales for European operations improved 33 percent due to an 18 percent increase in polyol sales volume, a five percent increase in average selling prices and favorable foreign currency translation, which accounted for $12.3 million, $4.2 million and $6.7 million, respectively, of the net sales increase. Demand from the European insulation market was strong through the first three quarters of 2008, due principally to higher energy costs and new insulation standards. However, sales volume for the fourth quarter of 2008 dropped from that of the fourth quarter of 2007 as a result of the slowdown in the global economy. The increase in average selling prices resulted from the recovery of higher raw material costs.

The 15 percent improvement in net sales for Asia and Other regions was primarily attributable to a $1.0 million favorable effect of foreign currency translation. A three percent increase in average selling prices and a two percent increase in sales volume each contributed about $0.3 million to the net sales increase.

Polymer operating income for 2008 increased $6.1 million, or 22 percent, over operating income for 2007. Operating income for 2008 included the $9.9 million gain on the July sale of the commodity polyurethane systems product lines. Gross profit declined $1.6 million, or four percent. Below are year-to-year comparisons of gross profit by region and total segment operating expenses and operating income:

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(Dollars in thousands)	For the Year Ended December 31, 2008	December 31, 2007	Increase / (Decrease)	Percent Change
Gross Profit				
North America	$ 25,932	$ 30,946	$ (5,014)	-16
Europe	14,497	11,905	2,592	+22
Asia and Other	1,471	610	861	+141
Total Polymers Segment	$ 41,900	$ 43,461	$ (1,561)	-4
Operating Expenses (1)	7,797	15,417	(7,620)	-49
Operating Income	$ 34,103	$ 28,044	$ 6,059	+22

(1) 2008 includes the $9.9 million gain on the sale of the commodity polyurethane systems product lines.

The 16 percent decline in gross profit for North American operations was attributable to a seven percent decrease in sales volume and higher raw material, maintenance and utility costs. Average raw material costs for all product lines were up approximately 14 percent between 2007 and 2008, which essentially eliminated the effect of higher selling prices. Maintenance costs increased approximately $1.5 million, or 57 percent, due primarily to work performed during a planned three-week maintenance shutdown of the phthalic anhydride and polyol production facilities occurring in the fourth quarter of 2008. Utility costs increased $0.8 million due largely to increased rates for electricity and natural gas. As noted previously, the slowdown in the economy began to affect polymer sales volumes in the fourth quarter of 2008.

Gross profit for European operations increased 22 percent due to an 18 percent increase in sales volume and a $1.2 million favorable effect of foreign currency translation. Higher raw material costs negatively impacted the gross profit result. The region was successful in recovering higher raw material costs throughout 2008.

The improvement in gross profit for Asia and Other regions resulted from higher sales prices and sales volume and a more profitable customer mix.

The $7.6 million decrease in operating expenses was principally attributable to the $9.9 million gain on the sale of the commodity polyurethane systems product lines, partially offset by a $1.4 million increase in expenses for North American operations and a $0.5 million increase in expenses for European operations. The effects of foreign currency translation added an additional $0.3 million of expense. North American operations marketing and research and development expenses each accounted for $0.7 million of the operating expense increase. Higher incentive-based pay, pension transition expense and salary expenses accounted for the majority of the increase in both the marketing and research and development expenses. Higher agents commissions, bonus expense and bad debt expense accounted for most of the increase in Europe s operating expenses.

Specialty Products

Net sales for 2008 were $8.7 million, or 27 percent, higher than net sales for 2007. Increased sales volume and average selling prices for the segment s food ingredient products led to the net sales increase. Despite the increase in net sales, operating income was unchanged from 2007 to

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2008 as the effects of higher sales volume and prices for food ingredient products were offset by a decline in sales of the segment s higher margin pharmaceutical products.

Corporate Expenses

Corporate expenses, which primarily comprise operating expenses that are not allocated to the reportable segments, declined $7.0 million, or 24 percent, to $21.6 million for 2008 from $28.6 million for 2007. The following table depicts the major items that accounted for the year-to-year decline in corporate expenses:

(Dollars in millions)	**Increase / (Decrease)**
Gain on Land Sale	($ 8.5) [a]
Deferred Compensation	(2.0) [b]
Incentive-based Compensation	0.9 [c]
Fringe Benefits	0.5 [d]
Salaried Payroll	0.4
Other	1.7
Total	($ 7.0)

(a) Reflects the gain on the sale of 88 acres of the Millsdale manufacturing facility s land (the gain was not attributed to a reportable segment and, therefore, was included in corporate expenses).

(b) Due primarily to declines in the market values of the mutual fund assets held for the deferred compensation plans. A $14.46 per share increase in the price of the Company s common stock partially offset the effect of the decrease in the values of the mutual funds.

(c) Includes stock-based compensation, bonuses and profit sharing, all of which increased due to the improvement in Company earnings.

(d) Due primarily to the acceleration of a portion of the Company s defined contribution pension transition expense.

Outlook

The Company and all three segments delivered record results in 2009 on lower commodity raw material costs and cost containment efforts throughout the Company. Surfactant and specialty product volumes remained healthy throughout the recession, particularly for laundry and personal care (consumer products) surfactant product lines. Given expectations for slow global economic recovery, the Company is focused on global growth and penetrating new end-use applications. The Company is committed to driving organic growth in its business. Management believes that the Company s growth initiatives create the opportunity to sustain earnings momentum.

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Liquidity and Financial Condition

Cash flow from operating activities for 2009 was an aggregate cash source of $166.4 million compared to a source of $29.1 million for 2008. Net income for the current year increased by $25.8 million and current year working capital changes were favorable by $86.5 million compared to 2008.

For 2009, accounts receivable were a cash source of $36.4 million compared to a cash use of $19.1 million in 2008. Inventories were a cash source of $31.8 million for 2009 versus a cash use of $24.0 million in 2008. Accounts payable and accrued liabilities were a use of $17.5 million for the year compared to a source of $7.8 million for the prior year.

During 2009, lower raw material costs had a direct, favorable cash flow impact in comparison to 2008 by driving inventory carrying costs lower during the current year period. Accounts receivable were also favorable to cash flow with decreases influenced by lower average selling prices as well as lower sales volumes. During 2008, an unprecedented increase in crude oil prices led to significantly higher costs for oil-derived commodity chemicals, which are used as raw materials. Raw material costs are a primary driver to the Company s working capital, with a direct impact on inventory carrying costs as well as an indirect impact on selling prices and accounts receivable. Despite the weakening economy, the Company has not experienced any significant change in the payment timing of its receivables and the Company has not changed its own payment practices related to its payables. It is management s opinion that the Company s liquidity is sufficient to provide for potential increases in working capital during 2010.

Investing activities for 2009 included capital expenditures of $42.6 million versus $49.8 million for the year 2008. In September 2008, the Company entered into an Internal Revenue Code 1031 tax deferred, like-kind exchange, which included the sale of land at the Company s Millsdale manufacturing site and the deposit of the land sale proceeds of $8.6 million in a restricted cash investment fund. As of December 31, 2008, the restricted cash balance was $8.5 million. During the first quarter of 2009, this exchange was consummated and the Company recovered the restricted cash balance as an investing source of funds. During 2009, the Company liquidated some investments for deferred compensation plans to make participant payouts. The liquidation of the investments resulted in a cash source of $3.6 million. For 2010, the Company estimates that capital expenditures will be in a range of $65 million to $75 million. The year-to- year increase will be driven largely by capacity expansions in Germany and Brazil.

The Company has purchased treasury shares in the open market from time to time in order to fund its own benefit plans and also to mitigate the dilutive effect of new shares issued under its benefit plans. The Company may also make open market repurchases as cash flows permit when, in management s opinion, the Company s shares are undervalued in the market. During 2009, the Company purchased 50,474 common shares for the treasury in the open market at a total cost of $1.9 million. As of December 31, 2009, there were 400,439 shares remaining under the current share repurchase authorization.

As of December 31, 2009, the Company s cash and cash equivalents totaled $98.5 million, including $58.1 million in two different U.S. money market funds which were each rated AAA by Standard and Poor s and Aaa by Moody s. Cash in U.S. demand deposit accounts, fully covered by FDIC insurance, totaled $24.0 million. Cash of the Company s non-U.S. subsidiaries held outside the U.S. totaled $16.4 million as of December 31, 2009.

Consolidated debt decreased by $38.9 million for 2009, from $143.0 million to $104.1 million. Over the same period, net debt, total debt minus cash (including restricted cash), declined by $120.7 million, from $126.3 million to $5.6 million. This deleveraging was made possible by improved earnings and lower levels of working capital, driven by the impact of lower commodity raw material costs on inventory and receivables. Since December 31, 2008, foreign debt decreased by $29.8 million and U.S. debt decreased by $9.1 million. As of December 31, 2009, the ratio of total debt to total debt plus shareholders equity was 26.4 percent, compared to 40.6 percent at December 31, 2008. The ratio of net debt to net debt plus shareholders equity was 1.9 percent at December 31, 2009, compared to 37.6 percent as of December 31, 2008.

At December 31, 2009, the Company s debt included $73.9 million of unsecured private placement loans with maturities extending from 2010 through 2018. These loans are the Company s primary source of long-term debt financing, and are supplemented by bank credit facilities to meet short and medium term needs. The Company s debt also included a $28.5 million term loan with its U.S. banks, which has maturities through 2013.

The Company currently also has $58.5 million of credit available under its committed $60.0 million U.S. revolving credit agreement, which will require renewal in April 20, 2011. Despite continuing tightness in the credit markets, the Company anticipates that cash from operations and cash on hand, as well as committed credit facilities, will be sufficient to fund anticipated capital expenditures, working capital, dividends and other planned financial commitments for the foreseeable future.

Certain foreign subsidiaries of the Company maintain bank term loans and short-term bank lines of credit in their respective local currencies to meet working capital requirements as well as to fund capital expenditure programs and acquisitions. As of December 31, 2009, the Company s European subsidiaries had term loans totaling $0.8 million including current maturities. The European subsidiaries had no short-term bank debt with available borrowing capacity of approximately $32.0 million at that date. The Company s Mexican subsidiary had debt totaling $0.7 million and the Colombian subsidiary had debt of $0.2 million.

The Company has material debt agreements that require the maintenance of minimum interest coverage and minimum net worth. These agreements also limit the incurrence of additional debt as well as the payment of dividends and repurchase of treasury shares. Testing for these agreements is based on the combined financial statements of the U.S. operations of Stepan Company and Stepan Canada Inc. (the Restricted Group). Under the most restrictive of these debt covenants:

1. The Restricted Group must maintain a minimum interest coverage ratio, as defined within the agreements, of 2.0 to 1.0, for the preceding four calendar quarters.

2. The Restricted Group must maintain net worth of at least $113.7 million.

3. The Restricted Group must maintain a ratio of long-term debt to total capitalization, as defined in the agreements, not to exceed 55 percent.

4. The Restricted Group may pay dividends and purchase treasury shares in amounts of up to $30.0 million plus 100 percent of net income and cash proceeds of stock option exercises, measured cumulatively beginning December 31, 2001. The maximum amount of dividends that could have been paid within this limitation is disclosed as unrestricted retained earnings on the Company s balance sheet.

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The Company was in compliance with all of its loan agreements as of December 31, 2009. Based on current projections, the Company believes it will be in compliance with its loan agreements throughout 2010.

Contractual Obligations

At December 31, 2009, the Company s contractual obligations, including estimated payments by period, were as follows:

		Payments Due by Period			
(Dollars in thousands)	Total	Less than 1 year	1-3 years	3 5 years	More than 5 years
Long Term Debt Obligations	$ 104,084	$ 10,173	$ 22,757	$ 44,013	$ 27,141
Interest Payments on Debt Obligations [a]	22,577	5,146	8,629	5,257	3,545
Capital Lease Obligations	1,445	289	578	578	
Operating Lease Obligations	16,956	3,084	4,273	3,123	6,476
Purchase Obligations [b]	29,090	26,462	2,628		
Other [c]	23,398	5,913	3,711	985	12,789
Total	$ 197,550	$ 51,067	$ 42,576	$ 53,956	$ 49,951

(a) Interest payments on debt obligations represent interest on all Company debt at December 31, 2009. The interest payment amounts related to the variable rate component of the Company s debt assume that interest will be paid at the rates prevailing at December 31, 2009. Future interest rates may change, and therefore, actual interest payments would differ from those disclosed in the above table.

(b) Purchase obligations consist of raw material, utility and telecommunication service purchases made in the normal course of business.

(c) The Other category comprises deferred revenues that represent commitments to deliver products; expected 2010 required contributions to the Company s funded defined benefit pension plans; estimated payments related to the Company s unfunded defined benefit supplemental executive and outside director pension plans; estimated payments (undiscounted) related to the Company s asset retirement obligations; and environmental remediation payments for which amounts and periods can be reasonably estimated.

The above table does not include $70.0 million of other non-current liabilities recorded on the balance sheet at December 31, 2009, as summarized in Note 15 to the consolidated financial statements. The significant non-current liabilities excluded from the table are defined benefit pension, deferred compensation, environmental and legal liabilities and unrecognized tax benefits for which payment periods can not be reasonably determined.

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Pension Plans

The Company has a number of defined benefit pension plans, the most significant of which cover employees in its U.S. and U.K. locations. The U.S. and U.K. plans have been frozen, and service benefit accruals are no longer being made. The underfunded status of the Company s defined benefit pension plans declined from $39.3 million at December 31, 2008, to $31.5 million at December 31, 2009. Better performance of the investment assets held to fund the liabilities of the Company s various pension plans coupled with additional cash contributions made to the plans more than offset the effects of 0.5 percent reductions in the discount rates used to calculate pension obligations and accounted for the improvement in the underfunded status. The Company contributed $5.3 million to its funded defined benefit pension plans in 2009. The Company expects to contribute approximately $3.7 million to the plans in 2010. Payments related to the unfunded non-qualified plans will approximate $0.4 million in 2010 compared to $0.2 million in 2009.

Letters of Credit

The Company maintains standby letters of credit under its workers compensation insurance agreements and for other purposes as needed from time to time. The insurance letters of credit are renewed annually and amended to the amounts required by the insurance agreements. As of December 31, 2009, the Company had a total of $1.5 million in outstanding standby letters of credit.

Off-Balance Sheet Arrangements

The Securities and Exchange Commission requires disclosure of off-balance sheet arrangements that either have, or are reasonably likely to have, a current or future effect on the Company s financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors. During the periods covered by this Form 10-K, the Company was not party to any such off-balance sheet arrangements.

Environmental and Legal Matters

The Company s operations are subject to extensive local, state and federal 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 2009, the Company s expenditures for capital projects related to the environment were $2.6 million. These projects are capitalized and depreciated over their estimated useful lives, which are typically 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 the Company s manufacturing locations were approximately $15.4 million for 2009 and 2008, and $13.7 million for 2007. While difficult to project, it is not anticipated that these recurring expenses will increase significantly in the future.

Over the years, the Company has received requests for information related to or has been named by the government as a potentially responsible party at a number of 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. See the Critical Accounting Policies section that follows for a discussion of the Company s environmental liabilities accounting policy. 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 $7.8 million to $31.9 million at December 31, 2009, compared to $10.8 million to $34.4 million at December 31, 2008. At December 31, 2009, the Company s accrued liability for such losses, which represents the Company s best estimate within the estimated range of possible environmental and legal losses, was $17.1 million compared to $16.7 million at December 31, 2008. During 2009, non-capital cash outlays related to legal and environmental matters approximated $3.1 million compared to $2.7 million expended in 2008.

For certain sites, estimates cannot be made of the total costs of compliance or the Company s share of such costs; consequently, the Company is unable to predict the effect thereof on the Company s cash flows or results of operations. Management believes that in the event of one or more adverse determinations in any annual or interim period, the impact on the Company s 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 3, Legal Proceedings, in this Form 10-K and in other filings of the Company with the Securities and Exchange Commission, which are available upon request from the Company. See also Note 16, Contingencies, in the Notes to Consolidated Financial Statements for a summary of the environmental proceedings related to certain environmental sites.

Climate Change Legislation

Based on currently available information, the Company does not believe that existing or pending climate change legislation or regulation is reasonably likely to have a material effect on the Company s financial condition, results of operations or cash flows.

Critical Accounting Policies

The Company prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles). Preparing financial statements in accordance with generally accepted accounting principles requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The following is a summary of the accounting policies the Company believes are the most important to aid in understanding its financial results.

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Deferred Compensation

The Company sponsors deferred compensation plans that allow management to defer receipt of its bonuses and outside directors to defer receipt of their director fees until retirement, departure from the Company or as elected. The Company funds its obligations associated with these plans by purchasing investment assets that match the investment choices made by the plan participants. The investment options include Company common stock and a limited selection of mutual funds. The Company maintains sufficient shares of treasury stock to cover the equivalent number of shares resulting from participants electing the Company common stock option. As a result, the Company must periodically purchase its common shares on the open market. The plans allow for the deferred compensation to grow or decline based on the results of the investment options chosen by the participants. Some plan distributions may be made in cash or Company common stock at the option of the participant. Certain plan distributions can only be made in Company common stock. Upon retirement or departure from the Company, participants receive cash amounts equivalent to the payment date value of the investment choices they have made or Company common stock shares equal to the number of share equivalents held in their account. For deferred compensation obligations that may be settled in cash, appreciation in the value of Stepan Company common stock or the mutual fund options under the plan results in additional compensation expense to the Company. Conversely, declines in the value of Company stock or the mutual funds result in a reduction of compensation expense since such declines reduce the cash obligation of the Company as of the date of the financial statements. It is these market price movements that result in the significant period-to-period fluctuations that impact the Company s consolidated statements of income. Because the obligations that must be settled only in Company common stock are treated as equity instruments, fluctuations in the market price of the underlying Company stock do not affect earnings.

At December 31, 2009, the Company s deferred compensation liability was $27.6 million, of which approximately 61 percent represented deferred compensation tied to the performance of the Company s common stock; the remainder was tied to the mutual fund investment choices. A $1.00 increase in the market price of the Company s common stock will result in approximately $0.3 million of additional compensation expense. Similarly, a $1.00 reduction in the market price of the common stock will reduce compensation expense by a like amount. The expense or income associated with the mutual fund component will generally fluctuate in line with the overall percentage increase or decrease of the U.S. stock markets.

The mutual fund assets are recorded on the Company s balance sheet at cost when acquired and adjusted to their market values at the end of each reporting period. On January 1, 2008, the Company elected the fair value option provided by generally accepted accounting principles for the mutual fund investment assets related to its deferred compensation plans. The fair value election for the mutual fund investment assets was made to reduce the income volatility caused by the previous accounting treatment for the Company s deferred compensation plans. Specifically, beginning in 2008, market value changes for the mutual fund investment assets are recorded in the income statement in the same periods that the offsetting changes in the deferred compensation liabilities are recorded. In 2007, value changes for the mutual fund investments were recorded as direct adjustments to shareholders equity in accumulated other comprehensive income. The accounting treatment for the portions of the deferred compensation liabilities that are tied to the Company s common stock values was not affected by the fair value election. Dividends, capital gains distributed by the mutual funds, unrealized gains and losses

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and realized gains and losses from sales of mutual fund shares, are recognized as investment income/loss in the Other, net line of the consolidated statements of income.

Environmental Liabilities

It is the Company s accounting policy to record environmental liabilities when environmental assessments and/or remedial efforts are probable and the cost or range of possible costs can be reasonably estimated. When no amount within a range of possible costs is a better estimate than any other amount, the minimum is accrued. Some of the factors on which the Company bases its estimates include information provided by feasibility studies, potentially responsible party negotiations and the development of remedial action plans.

Estimates for environmental liabilities are subject to significant fluctuations as new facts emerge related to the various sites where the Company is exposed to liability for the remediation of environmental contamination. See the Environmental and Legal Matters section of this Management s Discussion and Analysis for discussion of the Company s reserves and range of loss estimates.

Revenue Recognition

Revenue is recognized upon shipment of goods to customers, at which time title and risk of loss pass to the customer. For arrangements where the Company consigns product to a customer location, revenue is recognized when the customer uses the inventory. The Company records shipping and handling billed to a customer in a sales transaction as revenue. Costs incurred for shipping and handling are recorded in cost of sales. Volume discounts due to customers are estimated and recorded in the same period as the sales to which the discounts relate and reported as reductions of revenue in the consolidated statements of income.

Recent Accounting Pronouncements

See Note 1 to the consolidated financial statements, included in Part II, Item 8, for information on recent accounting pronouncements, which affect the Company.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

FOREIGN CURRENCY EXCHANGE RISK

Because the Company operates globally, its cash flows and operating results are subject to movements in foreign currency exchange rates. The Company manufactures and sells products in many foreign locations and, therefore, believes its currency exchange risk is well diversified. Except as noted below, substantially all the Company s foreign subsidiaries financial instruments are denominated in their respective functional currencies. Gains and losses on unhedged foreign currency transactions are recorded in earnings.

The Company uses short-term forward contracts to mitigate the exposure of certain foreign currency transactions and balances to fluctuating exchange rates. At December 31, 2009, the Company had one forward contract to sell $28.0 million on behalf of its Canadian subsidiary. The Company also had one contract to purchase 0.9 million on behalf of its U.K. subsidiary. Finally, the Company had contracts to buy $0.6 million and $0.4 million on behalf of its French and German subsidiaries, respectively.

Periodically, the Company and its subsidiaries issue U.S. dollar and euro denominated trade receivables or loans to each other. Gains and losses on these transactions are included in income. Foreign currency exposures for the Company s Canadian and European subsidiaries are essentially all covered by forward contracts as noted above. As of December 31, 2009, the Company had net trade receivables of $3.0 million due from its Brazilian subsidiary. Hypothetical fluctuations of 10 percent in the exchange rate of the Brazilian real would result in a gain or loss of $0.3 million.

INTEREST RATES

The Company s debt was made up of fixed-rate and variable-rate borrowings totaling $73.9 million and $30.2 million, respectively, as of December 31, 2009. For 2010, it is projected that interest on short-term variable-rate borrowings will total approximately $1.1 million. A hypothetical 10 percent average change to short-term interest rates would result in a $0.1 million increase or decrease to interest expense for 2010.

The fair value of the Company s fixed-rate debt, including current maturities, was estimated to be $78.5 million as of December 31, 2009, which was approximately $4.6 million above the carrying value. Market risk was estimated as the potential increase to the fair value that would result from a hypothetical 10 percent decrease in the Company s weighted average long-term borrowing rates at December 31, 2009, or $1.4 million.

The Company s long-term debt also includes a $28.5 million unsecured bank term loan that carries a contractural interest rate of LIBOR plus 125 basis points. The current market spread over LIBOR for this type of loan would be approximately 263 basis points. As of December 31, 2009, the fair value of this term loan was approximately $1.6 million less than the carrying value. A hypothetical 10 percent decrease in the market borrowing rate would increase the fair value of this loan by $0.3 million.

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COMMODITY PRICE RISK

Certain raw materials used in the manufacture of the Company s products are subject to price volatility caused by weather, petroleum prices, general economic demand and other unpredictable factors. Increased raw material costs are recovered from customers as quickly as the marketplace allows; however, certain customers have arrangements that allow for price changes only on a quarterly basis, and competitive pressures sometimes prevent the recovery of cost increases from customers, particularly in periods where there is excess industry capacity. As a result, for some product lines or market segments it may take time to recover raw material price increases. Periodically, firm purchase commitments are entered into which fix the price of a specific commodity that will be delivered at a future time. Forward contracts are used to aid in managing the Company s natural gas and electric costs. At December 31, 2009, the Company had open forward contracts for the purchase of 1.0 million dekatherms of natural gas at a cost of $6.9 million. Because the Company has agreed to fixed prices for the noted quantity of natural gas, a hypothetical 10 percent fluctuation in the price of natural gas would cause the Company s actual natural gas cost to be $0.7 million higher or lower than the market price. Also at December 31, 2009, the Company had contracts to purchase a minimum of 134,000 megawatt hours of electricity at a cost of $7.3 million. Because the Company has agreed to fixed prices for the noted quantity of electricity, a hypothetical 10 percent fluctuation in the price of electricity would cause the Company s actual electric cost to be $0.7 million higher or lower than the market price.

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Item 8. Financial Statements and Supplementary Data

The following statements and data are included in this item:

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

Stepan Company

Northfield, Illinois

We have audited the accompanying consolidated balance sheets of Stepan Company and subsidiaries (the Company) as of December 31, 2009 and 2008, and the related consolidated statements of income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2009 and 2008, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the Company adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 825, *Financial Instruments* (formerly FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115*), and elected the fair value option for its mutual fund investments as of January 1, 2008. Also, as discussed in Note 1 to the consolidated financial statements, on January 1, 2009, the Company adopted the provisions of FASB ASC Topic 810, *Consolidation*, as it relates to the adoption of the former FASB Statement No. 160, *Noncontrolling Interests in the Consolidated Financial Statements an amendment of ARB No. 51.*

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2010, expressed an unqualified opinion on the Company s internal control over financial reporting.

/s/ Deloitte & Touche LLP

DELOITTE & TOUCHE LLP

Chicago, Illinois

February 26, 2010

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Stepan Company

Consolidated Statements of Income

For the years ended December 31, 2009, 2008 and 2007

(In thousands, except per share amounts)	***2009***	***2008***	***2007***
Net Sales (Note 1)	**$ 1,276,382**	$ 1,600,130	$ 1,329,901
Cost of Sales	**1,043,279**	1,430,593	1,188,505
Gross Profit	**233,103**	169,537	141,396
Operating Expenses:			
Marketing	**40,434**	41,218	36,165
Administrative	**51,287**	41,600	39,402
Research, development and technical services (Note 1)	**36,494**	34,437	31,457
Sale of land (Note 20)		(8,469)	
Sale of product line (Note 19)		(9,929)	(4,190)
Goodwill impairment charge (Note 4)			3,467
	128,215	98,857	106,301
Operating Income	**104,888**	70,680	35,095
Other Income (Expense):			
Interest, net (Note 6)	**(6,271)**	(9,514)	(9,730)
Loss from equity in joint ventures (Note 1)	**(3,709)**	(2,697)	(416)
Other, net (Note 8)	**2,223**	(3,591)	(1,234)
	(7,757)	(15,802)	(11,380)
Income Before Provision for Income Taxes	**97,131**	54,878	23,715
Provision for income taxes (Note 9)	**34,028**	17,615	8,687
Net Income	**63,103**	37,263	15,028
Less: Net Income (Loss) Attributable to the Noncontrolling Interest (Note 1)	**54**	91	(90)
Net Income Attributable to Stepan Company	**$ 63,049**	$ 37,172	$ 15,118
Net Income Per Common Share Attributable to Stepan Company (Note 18):			
Basic	**$ 6.31**	$ 3.81	$ 1.54
Diluted	**$ 5.84**	$ 3.52	$ 1.50
Shares Used to Compute Net Income Per Common Share Attributable to Stepan Company (Note 18):			
Basic	**9,870**	9,566	9,316
Diluted	**10,796**	10,549	10,113

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

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Stepan Company

Consolidated Balance Sheets

December 31, 2009 and 2008

(Dollars in thousands)	*2009*	*2008*
Assets		
Current Assets:		
Cash and cash equivalents	**$ 98,518**	$ 8,258
Restricted cash (Note 20)		8,477
Receivables, less allowances of $6,762 in 2009 and $5,247 in 2008	**157,117**	188,444
Inventories (Note 5)	**74,693**	103,243
Deferred income taxes (Note 9)	**9,036**	10,552
Other current assets	**10,228**	9,449
Total current assets	**349,592**	328,423
Property, Plant and Equipment:		
Land	**12,211**	11,865
Buildings and improvements	**109,357**	106,081
Machinery and equipment	**791,254**	771,243
Construction in progress	**23,355**	22,062
	936,177	911,251
Less: accumulated depreciation	**687,559**	673,085
Property, plant and equipment, net	**248,618**	238,166
Goodwill, net (Note 4)	**4,502**	4,410
Other intangible assets, net (Note 4)	**4,931**	6,307
Long-term investments (Note 2)	**10,539**	11,351
Other non-current assets	**16,021**	23,240
Total assets	**$ 634,203**	$ 611,897
Liabilities and Stockholders Equity		
Current Liabilities:		
Current maturities of long-term debt (Note 6)	**$ 10,173**	$ 38,264
Accounts payable	**94,666**	117,247
Accrued liabilities (Note 14)	**58,456**	56,624
Total current liabilities	**163,295**	212,135
Deferred income taxes (Note 9)	**2,837**	2,137
Long-term debt, less current maturities (Note 6)	**93,911**	104,725
Other non-current liabilities (Note 15)	**83,733**	83,667

Commitments and Contingencies (Notes 6 and 16)

Stockholders Equity (Note 10):		
5 1/2 percent convertible preferred stock, cumulative, voting, without par value;		
authorized 2,000,000 shares; issued and outstanding 546,396 shares in		
2009 and 550,448 shares in 2008	**13,660**	13,761
Common stock, $1 par value; authorized 30,000,000 shares; issued 11,229,261 shares in 2009 and 10,840,946 shares in 2008	**11,229**	10,841
Additional paid-in capital	**71,267**	54,712
Accumulated other comprehensive loss (Note 1)	**(25,893)**	(40,525)
Retained earnings (approximately $95,653 unrestricted in 2009 and $59,433 in 2008)	**250,973**	197,481
Less: Treasury stock, at cost, 1,281,046 shares in 2009 and 1,208,857 shares in 2008	**(31,951)**	(28,126)
Total Stepan Company stockholders equity	**289,285**	208,144
Noncontrolling interest	**1,142**	1,089
Total stockholders equity	**290,427**	209,233
Total liabilities and stockholders equity	**$ 634,203**	$ 611,897

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

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Stepan Company

Consolidated Statements of Cash Flows

For the years ended December 31, 2009, 2008 and 2007

(Dollars in thousands)	*2009*	*2008*	*2007*
Cash Flows From Operating Activities			
Net income	**$ 63,103**	$ 37,263	$ 15,028
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**37,171**	36,928	37,176
Deferred compensation	**7,010**	211	2,253
Realized / Unrealized (gain) loss on long-term investments	**(1,929)**	4,966	(165)
Stock-based compensation	**4,754**	3,700	1,055
Deferred income taxes	**8,190**	1,278	4,701
Goodwill impairment charge			3,467
Sale of land		(8,469)	
Gain on sale of product line		(9,929)	(4,190)
Equity in earnings of joint ventures and other non-cash items	**5,799**	2,646	1,507
Changes in assets and liabilities:			
Receivables, net	**36,397**	(19,058)	(13,512)
Inventories	**31,819**	(24,044)	(710)
Other current assets	**(652)**	(1,017)	96
Accounts payable and accrued liabilities	**(17,461)**	7,761	10,444
Pension liabilities	**(4,537)**	1,828	(4,025)
Environmental and legal liabilities	**429**	(578)	(5,271)
Deferred revenues	**(645)**	(1,398)	(405)
Excess tax benefit from stock options and awards	**(3,007)**	(2,958)	(374)
Net Cash Provided By Operating Activities	**166,441**	29,130	47,075
Cash Flows From Investing Activities			
Expenditures for property, plant and equipment	**(42,631)**	(49,778)	(39,815)
Proceeds from sale of product line		9,929	6,200
Change in restricted cash	**8,477**	(8,477)	
Sale of mutual funds	**3,594**	933	1,914
Proceeds from sale of land		8,634	
Other, net	**(4,182)**	(4,287)	(3,617)
Net Cash Used In Investing Activities	**(34,742)**	(43,046)	(35,318)
Cash Flows From Financing Activities			
Revolving debt and notes payable to banks, net	**(24,082)**	756	6,931
Term loan		30,000	
Other debt borrowings	**1,777**	4,150	264
Other debt repayments	**(16,690)**	(17,507)	(12,696)
Dividends paid	**(9,557)**	(8,863)	(8,431)
Company stock repurchased	**(1,927)**		
Stock option exercises	**6,908**	6,813	1,825
Excess tax benefit from stock options and awards	**3,007**	2,958	374
Other, net	**(1,396)**	(1,200)	(117)
Net Cash Provided By (Used In) Financing Activities	**(41,960)**	17,107	(11,850)

Effect of Exchange Rate Changes on Cash	**521**	(672)	463
Net Increase in Cash and Cash Equivalents	**90,260**	2,519	370
Cash and Cash Equivalents at Beginning of Year	**8,258**	5,739	5,369
Cash and Cash Equivalents at End of Year	**$ 98,518**	$ 8,258	$ 5,739
Supplemental Cash Flow Information			
Cash payments of income taxes, net of refunds	**$ 28,809**	$ 7,634	$ 9,094
Cash payments of interest	**$ 6,887**	$ 9,619	$ 9,850

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

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Stepan Company

Consolidated Statements of Stockholders Equity

For the years ended December 31, 2009, 2008 and 2007

			STEPAN COMPANY SHAREHOLDERS						
(Dollars in thousands)	*Total*	*Comprehensive Income*	*Convertible Preferred Stock*	*Common Stock*	*Additional Paid-in Capital*	*Treasury Stock*	*Accumulated Other Comprehensive Income (Loss)*	*Retained Earnings*	*Noncontrolling Interest*
Balance, January 1, 2007	$ 181,537	$	$ 14,321	$ 10,343	$ 33,553	$ (24,323)	$ (14,292)	$ 161,184	$ 751
Adoption of uncertain tax position rules transition adjustment	467							467	
Issuance of 108,601 shares of common stock under stock option plan	2,434			108	2,326				
Purchase of 24,600 shares of common stock	(727)					(727)			
Conversion of preferred stock to common stock			(127)	6	121				
Equity based compensation	1,055				1,055				
Deferred compensation	75				75				
Profit sharing (transfer of 11,527 shares of treasury stock)	363				114	249			
Net income (loss)	15,028	15,028						15,118	(90)
Other comprehensive income:									
Foreign currency translation adjustments	9,209	9,209					9,194		15
Unrealized gains/losses on securities:									
Unrealized gains arising in period (net of taxes of $244)	385	385					385		
Less: reclassification adjustment for gains included in net income (net of taxes of $64)	(101)	(101)					(101)		
Net unrealized gain activity in period	284	284					284		
Defined benefit pension plans:									
Net actuarial gain arising in period (net of taxes of $2,286)	3,735	3,735					3,735		
Amortization of prior service cost included in pension expense (net of taxes of $363)	575	575					575		
Amortization of actuarial loss included in pension expense (net of taxes of $473)	749	749					749		
Net defined pension plan activity in period	5,059	5,059					5,059		
Comprehensive income	29,580	29,580							
Comprehensive income attributable to the noncontrolling interest	(75)	(75)							
Comprehensive income attributable to Stepan Company	29,655	29,655							
Cash dividends paid:									
Preferred stock ($1.375 per share)	(787)							(787)	

Common stock (82.50¢ per share)	(7,644)							(7,644)	
Non-qualified stock option income tax benefit	374				374				
Balance, December 31, 2007	$ 206,727	$	$ 14,194	$ 10,457	$ 37,618	$ (24,801)	$ 245	$ 168,338	$ 676

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Stepan Company

Consolidated Statements of Stockholders Equity

For the years ended December 31, 2009, 2008 and 2007

				STEPAN COMPANY SHAREHOLDERS					
(Dollars in thousands)	***Total***	***Comprehensive Income***	***Convertible Preferred Stock***	***Common Stock***	***Additional Paid-in Capital***	***Treasury Stock***	***Accumulated Other Comprehensive Income (Loss)***	***Retained Earnings***	***Noncontrolling Interest***
Balance, December 31, 2007	$ 206,727	$	$ 14,194	$ 10,457	$ 37,618	$ (24,801)	$ 245	$ 168,338	$ 676
Adoption of fair value option unrealized investment gains transition adjustment							(834)	834	
Additional interest in Stepan China joint venture	231								231
Issuance of 364,009 shares of common stock under stock option plan	9,518			364	9,154				
Purchase of 77,685 shares of common stock	(3,689)					(3,689)			
Conversion of preferred stock to common stock			(433)	20	413				
Equity based compensation	3,700				3,700				
Deferred compensation	692				692				
Profit sharing (transfer of 16,859 shares of treasury stock)	541				177	364			
Net income	37,263	37,263						37,172	91
Other comprehensive income:									
Foreign currency translation adjustments	(21,581)	(21,581)					(21,672)		91
Defined benefit pension plans:									
Net actuarial loss arising in period (net of taxes of $11,410)	(18,669)	(18,669)					(18,669)		
Amortization of prior service cost included in pension expense (net of taxes of $6)	16	16					16		
Amortization of actuarial loss included in pension expense (net of taxes of $230)	367	367					367		
Amortization of transitional obligation include in pension expense (net of taxes $9)	22	22					22		
Net defined pension plan activity in period	(18,264)	(18,264)					(18,264)		
Comprehensive income	(2,582)	(2,582)							
Comprehensive income attributable to the noncontrolling interest	182	182							
Comprehensive income attributable to Stepan Company	(2,764)	(2,764)							

Cash dividends paid:									
Preferred stock ($1.375 per share)	(769)							(769)	
Common stock (85.00¢ per share)	(8,094)							(8,094)	
Non-qualified stock option income tax benefit	2,958				2,958				
Balance, December 31, 2008	$ 209,233	$	$ 13,761	$ 10,841	$ 54,712	$ (28,126)	$ (40,525)	$ 197,481	$ 1,089

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Stepan Company

Consolidated Statements of Stockholders Equity

For the years ended December 31, 2009, 2008 and 2007

			STEPAN COMPANY SHAREHOLDERS						
(Dollars in thousands)	*Total*	*Comprehensive Income*	*Convertible Preferred Stock*	*Common Stock*	*Additional Paid-in Capital*	*Treasury Stock*	*Accumulated Other Comprehensive Income (Loss)*	*Retained Earnings*	*Noncontrolling Interest*
Balance, December 31, 2008	$ 209,233	$	$ 13,761	$ 10,841	$ 54,712	$ (28,126)	$ (40,525)	$ 197,481	$ 1,089
Issuance of 335,644 shares of common stock under stock option plan	8,052			336	7,716				
Purchase of 99,561 shares of common stock	(4,466)					(4,466)			
Conversion of preferred stock to common stock			(101)	6	95				
Equity based compensation	4,754			46	4,708				
Deferred compensation	689				689				
Profit sharing (transfer of 27,372 shares of treasury stock)	981				340	641			
Net income	63,103	63,103						63,049	54
Other comprehensive income:									
Foreign currency translation adjustments	12,595	12,595					12,596		(1)
Defined benefit pension plans:									
Net actuarial gain arising in period (net of taxes of $1,216)	1,184	1,184					1,184		
Amortization of prior service cost included in pension expense (net of taxes of $5)	12	12					12		
Amortization of actuarial loss included in pension expense (net of taxes of $498)	822	822					822		
Amortization of transitional obligation included in pension expense (net of taxes $7)	18	18					18		
Net defined pension plan activity in period	2,036	2,036					2,036		
Comprehensive income	77,734	77,734							
Comprehensive income attributable to the noncontrolling interest	53	53							
Comprehensive income attributable to Stepan Company	77,681	77,681							