

ITRONICS INC
Form 10QSB
May 27, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-QSB

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2005

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT
For the transition period from _____ to _____

Commission File Number 33-18582

ITRONICS INC.

(Exact name of small business issuer as specified in its charter)

TEXAS

75-2198369

(State or other jurisdiction of (IRS Employer Identification Number)
incorporation or organization)

6490 S. McCarran Blvd., Bldg C-23, Reno, Nevada 89509

(Address of principal executive offices)

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Issuer's telephone number, including area code: (775)689-7696

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 during the past 90 days. Yes (x) No ().

APPLICABLE ONLY TO CORPORATE ISSUERS

As of May 15, 2005, 192,907,173 shares of common stock were outstanding.

Transitional Small Business Disclosure Format (Check one): Yes () No (X)

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ITRONICS INC. AND SUBSIDIARIES

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

ITRONICS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
MARCH 31, 2005 AND DECEMBER 31, 2004
(UNAUDITED)

ASSETS

	March 31, <u>2005</u>	December 31, <u>2004</u>
CURRENT ASSETS		
Cash	\$ -	\$ 5,180
Accounts receivable, less allowance for doubtful accounts, 2005, \$5,700; 2004, \$5,700	312,723	188,805

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Marketable securities, available for sale	11,901	26,180
Inventories	557,582	571,704
Prepaid expenses	226,389	142,509
Current portion of deferred loan fees	14,752	14,152
Total Current Assets	1,123,347	948,530
PROPERTY AND EQUIPMENT		
Land	215,000	215,000
Building and improvements	1,167,315	1,167,315
Design and construction in progress, manufacturing facility	130,071	121,171
Equipment and furniture	2,071,998	2,071,998
Vehicles	133,028	133,028
Equipment under capital lease	1,096,104	1,096,104
	4,813,516	4,804,616
Less: Accumulated depreciation and amortization	1,732,411	1,670,668
	3,081,105	3,133,948
OTHER ASSETS		
Intangibles, net of amortization	8,423	8,435
Deferred loan fees, less current portion, net of amortization	30,215	34,502
Deposits	22,525	22,525
	61,163	65,462
	\$4,265,615	\$4,147,940

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LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

	March 31,	December 31,
	<u>2005</u>	<u>2004</u>
CURRENT LIABILITIES		
Bank overdraft	\$ 60,598	\$ -
Accounts payable	634,662	609,795
Accrued management salaries	448,799	389,127
Accrued expenses	312,428	398,731
Insurance contracts payable	32,249	15,048
Interest payable	222,781	211,216
Current maturities of long-term debt	517,330	522,845
Current maturities of capital lease obligations	784,536	807,746
Current maturities of advances from an officer/stockholder	181,525	161,525
Current maturities of capital lease due stockholder	5,420	5,420
Current maturities of convertible notes and accrued interest	2,727,496	1,020,946
Other	25,179	21,429
Total Current Liabilities	5,953,003	4,163,828
LONG-TERM LIABILITIES		
Long-term debt, less current maturities	94,380	97,022
Convertible promissory notes, less current maturities	-	1,517,000
Accrued interest, convertible notes, less current maturities	-	925,216
Capital lease obligation, shareholder, less current maturities	7,551	9,144

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Total Long-Term Liabilities	101,931	2,548,382
	6,054,934	6,712,210
STOCKHOLDERS' EQUITY (DEFICIT)		
Preferred stock, par value \$0.001 per share; authorized 999,500 shares, issued and outstanding 2005, 0 shares; 2004, 0 shares		
	-	-
Common stock, par value \$0.001 per share; authorized 250,000,000 shares, issued and outstanding, 191,182,367 at March 31, 2005; 164,863,938 at December 31, 2004		
	191,182	164,864
Additional paid-in capital	21,261,496	19,438,213
Accumulated deficit	(23,858,564)	(22,944,959)
Common stock to be issued	601,670	786,426
Accumulated other comprehensive income (loss)	(18,450)	(9,568)
Common stock options outstanding, net	33,347	754
	(1,789,319)	(2,564,270)
	\$4,265,615	\$4,147,940

See Notes to Condensed Consolidated Financial Statements

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FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004
(UNAUDITED)

	Three Months Ended March 31,	
	<u>2005</u>	<u>2004</u>
REVENUES		
Fertilizer	\$211,234	\$229,479
Photochemical recycling	22,181	54,559
Silver	26,759	42,958
Mining technical services	49,799	79,844
Total Revenues	309,973	406,840
COST OF SALES		
Gross Profit (Loss)	(41,135)	(33,733)
OPERATING EXPENSES		
Depreciation and amortization	65,442	78,111
Research and development	80,736	21,103
Sales and marketing	280,837	214,285
Delivery and warehousing	18,083	17,606
General and administrative	259,635	212,775
Total Operating Expenses	704,733	543,880
Operating (Loss)	(745,868)	(577,613)
OTHER INCOME (EXPENSE)		
Interest expense	(164,052)	(208,770)
Gain (loss) on sale of investments	(3,685)	75,758

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Other	-	8
Total Other Income (Expense)	(167,737)	(133,004)
Income (Loss) before provision for income tax	(913,605)	(710,617)
Provision for income tax	-	-
Net Income(Loss)	(913,605)	(710,617)
Other comprehensive income (loss) Unrealized gains (losses) on securities	(8,882)	(184,754)
Comprehensive Income (Loss)	\$(922,487)	\$(895,371)
Weighted average number of shares Outstanding (1,000 s)	174,495	127,541
Earnings (Loss) per share, basic and diluted	\$(0.005)	\$(0.006)

See Notes to Condensed Consolidated Financial Statements

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ITRONICS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004
(UNAUDITED)

Three Months Ended March 31,

2005

2004

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Cash flows from operating activities

Net income (loss)	\$(913,605)	\$(710,617)
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Adjustments to reconcile net loss to

cash used by operating activities:

Depreciation and amortization	65,442	78,111
-------------------------------	--------	--------

Interest on convertible notes	99,564	135,247
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Marketable securities received for services	(2,518)	(12,683)
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(Gain) Loss on investments	3,685	(75,758)
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Stock option compensation	32,934	123
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Expenses paid with issuance of common stock	227,422	140,918
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(Increase) decrease in:

Trade accounts receivable	(123,918)	(58,606)
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Inventories	14,122	(22,960)
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Prepaid expenses and deposits	(54,764)	3,716
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Increase (decrease) in:

Accounts payable	(22,624)	(29,081)
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Accrued management salaries	59,672	29,303
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Accrued expenses and contracts payable	(65,352)	(12,410)
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Accrued interest	11,565	2,687
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Net cash used by operating activities	(668,375)	(532,010)
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Cash flows from investing activities:

Acquisition of property and equipment	-	(4,844)
---------------------------------------	---	---------

Proceeds from sale of investments	4,230	153,395
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Net cash provided (used) by investing activities	4,230	148,551
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Cash flows from financing activities:

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Proceeds from sale of stock	560,000	366,500
Proceeds from debt, stockholder	25,000	-
Proceeds from account receivable factoring, net	51,327	59,625
Payments on debt	(37,960)	(51,935)
Net cash provided by financing activities	598,367	374,190
Net increase (decrease) in cash	(65,778)	(9,269)
Cash, beginning of period	5,180	34,499
Cash, end of period	\$ (60,598)	\$ 25,230

See Notes to Condensed Consolidated Financial Statements

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ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2005

(UNAUDITED)

1. The unaudited condensed consolidated financial statements presented herein have been prepared in accordance with the instructions to Form 10-QSB and do not include all of the information and disclosures required by U.S. Generally Accepted Accounting Principles. Therefore, these financial statements should be read in conjunction with the consolidated financial statements and related footnotes included in the Company's Form 10-KSB for the year ended December 31, 2004. These financial statements reflect all adjustments that are, in the opinion of management, necessary to fairly state the results for the interim periods reported. Certain amounts from the prior period have been reclassified to be consistent with the current period presentation.

2. The Company's consolidated financial statements have been presented on the basis that it is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company and its subsidiaries have reported recurring losses from operations, including a net loss of \$913,605 during the three months ended March 31, 2005, a working capital deficit of \$4,829,656, and a stockholders' deficit balance of \$1,789,319 as of March 31, 2005. These factors indicate the Company and its subsidiaries' ability to continue in existence is dependent upon their ability to obtain additional long-term debt and/or equity financing and achieve profitable operations. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company and its subsidiaries be unable to continue in existence. The results of operations for the three months ended March 31, 2005 were affected by rainy weather and are not necessarily indicative of the results to be expected for the full year.

3. A Private Placement of restricted stock with attached three year warrants is continuing with an offering price of \$0.05 per share, plus an attached three year warrant for one half the number of shares with an exercise price of \$0.075 for the first year, double that amount for the second year, and triple that amount for the third year. During the three months ended March 31, 2005 \$560,000 was received from this private placement.

4. In August 2002 a supplier of equipment for the Stead manufacturing plant filed suit against the Company and its subsidiary, Itronics Metallurgical, Inc. (IMI) in Johnson County, Indiana for the unpaid amount of \$64,234 plus attorney's fees and court costs. On October 1, 2002 the plaintiff received a default judgment awarding the \$64,234 plus \$1,500 attorney's fees plus 8% interest. On November 5, 2002 the plaintiff filed a "Notice of Filing of Foreign Judgment" in Washoe County, Nevada and has received the judgment. In December 2003 a settlement agreement was accepted that required a \$10,000 payment in December 2003 plus monthly payment of \$5,161 over twelve months in 2004. Payments are delinquent as of December 31, 2004. In February 2005 the plaintiff received approximately \$6,700 by levying three of the Company's bank accounts. No further collection action has been taken.

As of March 31, 2005 a total of nine lawsuits filed in 2003 and prior years remain outstanding against the Company's subsidiaries by various

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ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2005

(UNAUDITED)

equipment lessors. Five of the suits were filed in Washoe County, Nevada, two in Cook County, Illinois, one in Los Angeles County, California, and one in

Oakland County, Michigan. Three additional suits covering six leases were filed in Washoe County, Nevada in 2004. The suits seek a total of \$839,934 plus attorneys fees and other costs. Six of these suits, seeking a total of \$306,990 plus costs, were settled by restructuring the leases, signing stipulated judgments and agreeing to pay total payments of \$258,390. Monthly payments on the settlements total \$12,935 and are paid over various periods ranging from 18 to 31 months. If the restructured leases are defaulted, judgments for the original claimed amounts can be entered and further collection action, including repossession of the secured equipment, can be taken. Payments on five of the restructured leases are in default, but no additional collection action has been taken. Of the six remaining unsettled suits, three have received judgments, of which one has filed for a debtors examination which was to occur in April 2005. The Company has agreed to payment terms on that lease and the examination has been stayed until June 2005. Legal counsel is actively negotiating two of the unsettled suits. No further action has occurred on the other unsettled suit.

In February 2003 a trade creditor filed suit against the Company in Washoe County, Nevada seeking a total of \$85,525 plus attorney fees and other costs. A default judgment was entered in May 2003. No further collection action has occurred on this claim.

As of December 31, 2004 the Company's subsidiaries were delinquent on approximately \$206,200 in federal payroll taxes. The Company engaged a consultant to assist in working with the IRS to formulate a payment plan. A plan was negotiated to pay specified portions of the liability on or before January 31, 2005 and on the fifteenth of each month beginning March 15, 2005 until paid off on May 15, 2005. The Company made the required payments in January and

March 2005, and paid a total of \$115,586, but did not make the subsequent payments as they became due. The Company has received notice of intent to levy on the subsidiaries IMI and ICI for a total amount due of \$93,273. The notices are dated May 12, 2005. They indicate the Company has 30 days from that date to pay the tax, make alternative payment arrangements, or request appeals consideration. After the 30 days, the IRS may seize property to satisfy the debt. The IRS may also file federal tax liens for the amounts due at any time. Successful completion of a payment plan is dependent on future financing.

Successful settlement of the above claims is dependent on future financing, which the Company is actively seeking.

5. As of March 31, 2005 lease payments totaling \$758,434 were in arrears. As required by U.S. Generally Accepted Accounting Principles, the principal balance of the leases that are in default have been classified as current liabilities. The Company is in ongoing communication with the lessors to avoid action that may be adverse to the Company.

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ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2005

(UNAUDITED)

In 2003 an offer was made to extend the Series 2000 Convertible Promissory Notes. The holders of \$80,000 of the Notes have not responded to the offer and that amount, plus \$51,553 in accrued interest, remains in default.

As of March 31, 2005, the Company was delinquent on real property taxes in the amount of \$14,630 plus interest and penalties. This is a technical default of the promissory note and deed of trust secured by the Stead manufacturing facility. The lender is aware of the situation and has taken no collection action. The Company was also in arrears in the amount of \$6,445 as of March 31, 2005 on a promissory note secured by equipment. The Company is working with the lender's legal counsel to bring the payments current. As required by U.S. Generally Accepted Accounting Principles, the principal balance of these notes, in the amount of \$502,403, have been classified as current liabilities.

6. During the three months ended March 31, 2005 convertible promissory notes totaling \$592,600 principal and \$242,630 accrued interest were converted into common stock at \$0.10 per share.

7. Significant non-cash operating, investing, and financing activities for the three months ended March 31, 2005 include the conversion of \$835,230 in convertible promissory notes and accrued interest into restricted common stock.

8. Warrants, options, and shares to be issued, totaling 62,289,984 and 66,758,507 shares as of March 31, 2005 and 2004, respectively, would dilute future Earnings Per Share (EPS). No diluted EPS is presented as the effect of including these shares is antidilutive.

9. Following are the components of Other Comprehensive Income:

Three Months Ended March 31,

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	<u>2005</u>	<u>2004</u>
Unrealized holding gains (losses)		
arising during the period	\$(12,122)	\$ (73,866)
Reclassification adjustment	3,240	(110,888)
Other Comprehensive Income (Loss)	\$(8,882)	\$(184,754)

10. Following is financial information for each of the Company's segments. No changes have occurred in the basis of segmentation since December 31, 2004.

Reconciliation of segment revenues, gross profit (loss), operating income (loss), other income (expense), and net income (loss) before taxes to the respective consolidated amounts follows:

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ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2005

(UNAUDITED)

Three Months Ended March 31,

	<u>2005</u>	<u>2004</u>
Revenues:		
Photochemical Fertilizer	\$260,174	\$ 326,996
Mining Technical Services	49,799	79,844
Consolidated Revenues	\$309,973	\$ 406,840
Gross Profit (Loss):		

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Photochemical Fertilizer	\$(42,164)	\$(35,639)
Mining Technical Services	1,029	1,906
Consolidated Gross Profit		
(Loss)	\$(41,135)	\$(33,733)
Operating Income (Loss):		
Photochemical Fertilizer	\$(603,545)	\$(483,503)
Mining Technical Services	(142,323)	(94,110)
Consolidated Operating		
Income (Loss)	\$(745,868)	\$(577,613)
Other Income (Expense):		
Photochemical Fertilizer	\$(164,052)	\$(208,770)
Mining Technical Services	(3,685)	75,766
Consolidated Other Income		
(Expense)	\$(167,737)	\$(133,004)
Net Income (Loss) before taxes:		
Photochemical Fertilizer	\$(767,597)	\$(692,273)
Mining Technical Services	(146,008)	(18,344)
Consolidated Net Income		
(Loss) before taxes	\$(913,605)	\$(710,617)

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MARCH 31, 2005

(UNAUDITED)

Identifiable assets by business segment for the major asset classifications and reconciliation to total consolidated assets are as follows:

	March 31, <u>2005</u>	December 31, <u>2004</u>
Current Assets:		
Photochemical Fertilizer	\$ 819,398	\$ 684,754
Mining Technical Services	150,724	157,603
	970,122	842,357
Property and Equipment, net:		
Photochemical Fertilizer	2,965,688	3,010,749
Mining Technical Services	114,776	122,342
	3,080,464	3,133,091
Other Assets, net:		
Photochemical Fertilizer	48,398	52,697
Mining Technical Services	969,614	1,246,824
	1,018,012	1,299,521
Total Assets:		
Photochemical Fertilizer	3,833,484	3,748,200
Mining Technical Services	1,235,114	1,526,769
Total Segment Assets	5,068,598	5,274,969

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Itronics Inc. assets	23,199,803	22,504,867
Less: inter-company elimination	(24,002,786)	(23,631,896)
Consolidated Assets	\$ 4,265,615	\$ 4,147,940

11. The Company applies APB Opinion 25 in accounting for stock options. The following table shows a comparison of option compensation expense between this method compared to the Fair Market Value method under FASB Statement No. 123. The table also indicates the impact on net loss and loss per share:

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ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2005

(UNAUDITED)

	Three Months Ended March 31,	
	<u>2005</u>	<u>2004</u>
Option Compensation Expense:		
As reported	\$ 32,934	\$ 123
Adjustment for additional expense		
for fair value of options	3,132	1,245
Pro forma	\$ 36,066	\$ 1,368
Net Income (Loss):		
As reported	\$(913,605)	\$(710,617)
Adjustment for additional expense		
for fair value of options	(3,132)	(1,245)
Pro forma	\$(916,737)	\$(711,862)

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Earnings (Loss) per share,

basic and diluted

As reported	\$(0.005)	\$(0.006)
Pro forma	\$(0.005)	\$(0.006)

Item 2. Management's Discussion and Analysis or Plan of Operations

I. Results of Operations

The Company reported consolidated revenues of \$309,973 for the quarter ended March 31, 2005, compared to \$406,840 for the prior year quarter, a decrease of 24%. The decrease was due to a decrease of \$30,000 in Mining Technical Services segment revenues, a decrease of 38%, and to a decrease in Photochemical Fertilizer segment revenue of \$66,800, or 20%. The consolidated net loss was \$913,605, or \$0.005 per share, for the quarter ended March 31, 2005, compared to a net loss of \$710,617 or \$0.006 per share for the comparable 2004 period, an increased loss of \$202,988, or 29%.

To provide a more complete understanding of the factors contributing to the changes in revenues, operating expenses, other income (expense) and the resultant operating income (loss) and net income (loss) before taxes, the discussion presented below is separated into the Company's two operating segments.

PHOTOCHEMICAL FERTILIZER

This segment, managed by Itronics Metallurgical, Inc., operates a photochemical recycling plant, which includes related silver recovery. As part of the recycling process, the Company manufactures and markets a line of liquid fertilizer products which are being sold under the GOLD n GRO trademark in the western U.S. markets in Arizona, California, Colorado, Hawaii, Idaho, Nevada, Oregon, and Washington. GOLD n GRO fertilizer products are being introduced in the eastern U.S. markets in Connecticut, Delaware, Massachusetts, New Jersey, New York, Pennsylvania, and Rhode Island. Revenues are generated from photochemical collection services, silver sales, and GOLD n GRO liquid fertilizer sales.

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	Three months Ended March 31,	
	<u>2005</u>	<u>2004</u>
Revenues	\$ 260,174	\$ 326,996
Gross profit (loss)	\$ (42,164)	\$ (35,639)
Operating income (loss)	\$(603,545)	\$(483,503)
Other income (loss)	\$(164,052)	\$(208,770)

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Net income (loss) before taxes	\$(767,597)	\$(692,273)
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Total segment revenues for the first quarter of 2005 were approximately \$260,200, a decrease of 20% from the prior year first quarter. Fertilizer sales for the quarter were \$211,200, compared to \$229,500 for the 2004 first quarter, a decrease of 8%. The fertilizer sales decrease is attributable to continual rainy weather in the Central Valley of California that has continued into late May 2005. Total photochemical recycling revenue for the quarter decreased by 59%, on decreased volume of 64%, compared to the first quarter of 2004. The decrease is due to the December 2004 mutual termination of a significant photochemical recycling customer. To offset this loss of revenue, the Company is concentrating its efforts on sales of Photochemical Silver Concentrators. During the first quarter of 2005 the Company received an order for two Concentrators and several leads and viable requests for proposal from several other potential customers. The Company presently has proposals out to potential customers that could lead to more than \$500,000 in sales of the Photochemical Silver Concentrators. This marks the beginning of a shift in market focus from obtaining the majority of photochemical raw materials by picking up the materials by truck directly from the customer's location to obtaining the majority of its photochemical raw materials by receiving concentrated material through the interstate commercial trucking system. Silver sales decreased \$16,200 from the first quarter of 2004, a decrease of 38%. The decrease is primarily attributable to reduced sales of Silver Nevada Miner silver bars. Cost of sales decreased \$60,300 due primarily to a decreases of \$58,300 in direct material costs due to decreased sales. The segment recorded a gross loss of \$42,200 for the quarter, compared to a gross loss of \$35,600 for the first quarter of 2004, an increased loss of \$6,500, or 18%.

Segment operating expenses increased \$113,500 from the first quarter of 2004. This includes an increase in sales and marketing expense of \$76,300 due to increased corporate marketing and \$29,600 in stock option compensation expense.

These factors resulted in a 2005 first quarter segment operating loss of \$603,500 compared to a loss of \$483,500 for the first quarter of 2004, an increased operating loss of \$120,000, or 25%.

Other expense decreased \$44,700 due to a decrease in interest expense resulting from prior and current year conversions of convertible promissory notes into common stock.

The changes in operating loss and other expenses resulted in a segment net loss before taxes of \$767,600 for the quarter ended March 31, 2005, compared to a loss of \$692,300 for the prior

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year quarter, an increased loss of \$75,300 or 11%.

MINING TECHNICAL SERVICES

This segment, known as Whitney & Whitney, Inc., provides mining and materials management, geology, engineering and economics consulting, and publishes specialized mineral economics and materials financial reports. It employs technical specialists with expertise in the areas of mining, geology, mining engineering, mineral economics, materials processing and technology development. Technical services have been provided to many of the leading U.S. and foreign mining companies, several public utilities with mineral interests, to various state agencies, the U.S. and foreign governments, and the United Nations and the World Bank.

Three Months Ended March 31,

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	<u>2005</u>	<u>2004</u>
Revenues	\$49,799	\$79,844
Gross profit (loss)	1,029	1,906
Operating income (loss)	(142,323)	(94,110)
Other income (expense)	(3,685)	75,766
Net income (loss) before taxes	(146,008)	(18,344)

Mining technical services revenue was \$49,800 for the quarter ended March 31, 2005, compared to \$79,800 for the comparable quarter of 2004, a decrease of 38%. The decrease is due to prior year short term projects that did not reoccur in the current period. Cost of sales decreased by \$29,200, due to decreases in labor and consulting costs of \$28,000. These factors resulted in a first quarter gross profit for the segment of \$1,000 compared to a gross profit of \$1,900 for the prior year first quarter, a nominal decrease.

In early May 2005 the technical services satellite office was closed due to the winding down of most of the technical service contracts and completion of the majority of the data gathering for the insidemetals.com project, but certain key staff members have been retained. Programming is continuing for insidemetals.com and launch of the website is planned for June 2005.

Segment operating expenses increased \$47,300 due to \$62,700 in research and development expenses related to developing the insidemetals.com project, which was partially offset by decreases in various other operating expenses. This project will be an internet "Information Portal" offering financial and production information on gold mining companies through an attractively priced subscription service.

The combination of these factors resulted in a 2005 first quarter segment operating loss of \$142,300, compared to a loss of \$94,100 for the first quarter of 2004, an increased operating loss of \$48,200, or 51%.

Other income (loss) for the first quarter of 2005 was a loss of \$3,700 compared to a gain of \$75,800 for the prior year first quarter. This decrease is due to reduced sales of common shares of Golden Phoenix Minerals, Inc. (GPXM) and other marketable securities.

The changes in operating loss and other income resulted in a segment net loss before taxes of \$146,000 for the quarter ended March 31, 2005, compared to a loss of \$18,300 for the prior year quarter, an increased loss of \$127,700.

SUMMARY

On a consolidated basis, the various changes in revenues and operating expenses resulted in a first quarter 2005 operating loss of \$745,900, compared to \$577,600 for the first quarter of 2004, an increased operating loss of \$168,300, or 29%. Net loss before taxes for the first quarter 2005 was \$913,600 compared to \$710,600 for the prior year first quarter, an increased loss of \$203,000 or 29%.

II. Changes in Financial Condition; Capitalization

Cash amounted to \$(60,600) as of March 31, 2005, compared to \$25,200 as of March 31, 2004. Net cash used for operating activities was approximately \$668,400 for the first three months of 2005. The cash used for operating activities during the period was financed by a combination of sales of common stock of \$560,000 from a private placement of restricted common stock and attached warrants, short term loans from an officer/stockholder of \$25,000, and \$51,300 in account receivable factoring.

Total assets increased during the three months ended March 31, 2005 by \$117,700 to \$4,265,600. Current assets increased \$174,800 due to increases in accounts receivable of \$123,900 and \$83,900 in prepaid expenses. The increase in accounts receivable is due to a significant percentage of fertilizer sales for the quarter occurring in March, as opposed to being spread relatively evenly throughout the quarter. Prepaid expenses increased due to a combination of extensions of corporate marketing and consulting contracts and prepayment of raw material inventory. Net property and equipment decreased \$52,800 due to depreciation and amortization. Other assets decreased nominally. At March 31, 2005 the Company owned 113,300 shares of GPXM with a current market value of \$11,900. During the three months ended March 31, 2005 the Company sold 22,000 GPXM shares, with total net proceeds of \$4,200.

Current liabilities increased during the three months ended March 31, 2005 by \$1,789,200 and total liabilities decreased by \$657,300. Total liabilities decreased due to the conversion into common stock of a total of \$835,200 in Convertible Promissory Notes and accrued interest. This decrease was partially offset by current period accrued interest on convertible promissory notes of \$99,600. Changes in current liabilities include an increase of \$60,600 in bank overdraft, \$24,900 in accounts payable, \$59,700 in accrued management salaries, \$20,000 in advances from an officer/stockholder, and \$1,706,600 in current maturities of convertible notes and accrued interest. The increase in current maturities of convertible notes is due to the reclassification from long term debt of the 2000 Series Convertible Promissory Notes that were extended to 2006 and are now due within one year of the balance sheet date. These increases were partially offset by a decrease of \$86,300 in accrued expenses, which reflects payment of a portion of federal payroll tax obligations.

The above discussion and the discussion of various legal proceedings elsewhere in this report does not succinctly summarize the progress that the Company has made in implementing its business plan and improving its financial condition over the last several years. However, there has been significant progress. First, in 2004 fertilizer sales exceeded \$1 million for the first time, compared to sales in the \$500,000 range for each of the two previous years. This

resulted in a gross loss for the photochemical fertilizer segment of \$34,700, which was a \$148,200 improvement over 2003 and a \$217,100 improvement over 2002. This demonstrates one of the fundamental concepts in the business plan, that a large part of the Company's operating cost structure is fixed or semi-fixed, which means that as sales rise, many of the costs will not rise proportionally, resulting in gross profits that will contribute to paying general overhead costs. This improvement in the photochemical fertilizer segment, combined with a gross profit from the technical services segment, resulted in an overall gross profit for the year, which is the first time that this was accomplished since before the move to the Stead manufacturing facility in 2000.

Addressing the Company's financial condition, improvements have been made there as well. The stockholders' deficit, \$4,587,900 at December 31, 2002, has been reduced to a deficit of \$1,789,300 at March 31, 2005, an improvement of \$2,798,600. This has been achieved by the conversion of approximately \$4.2 million in convertible notes and accrued interest into common stock. One significant area of difficulty for the Company has been meeting the payments on capital lease obligations. However, the capital lease obligation at December 31, 2002 of \$1,193,900 has been reduced to \$784,500 at March 31, 2005, a reduction of \$409,400. This includes the write off five leases as debt forgiveness income in 2004 of \$187,800. The Company expects to make further meaningful progress expanding sales and reducing debt in 2005.

III. Working Capital/Liquidity

During the three months ended March 31, 2005, working capital decreased by \$1,614,400 to a deficit balance of \$4,829,700. The decrease is due to the reclassification from long term debt of a net \$1,706,600 in convertible notes and accrued interest. The Company has had limited cash liquidity since the third quarter of 2000. The Company has sought and obtained the funding described above, which has not been sufficient to maintain all obligations on a current basis. Other factors limiting cash liquidity include fertilizer sales not expanding at the rate originally anticipated, so operating losses were not reduced as much as expected and the \$15 million equity line of credit agreement with Swartz Private Equities, LLC (Swartz) expiring in February 2004. A private placement of stock with attached warrants is continuing, with \$560,000 received during the three months ended March 31, 2005.

There has been a long term commitment by officers and other members of management to support the Company by investing funds for the Company's growth. One officer/shareholder has invested a total of \$1,307,700 in cash and deferred salary during the period 2001 through March 31, 2005. Two other members of management have deferred salary totaling \$496,500 during the period 2001 through March 31, 2005. Additional members of management invested \$62,000 cash in 2003. All cash and deferred salary that have been invested in the Company's private placements were under the same terms and conditions as all other investors.

To assist with the Company's short and long term working capital needs, the Company has engaged an investment banking firm which is a registered broker/dealer, an investor relations and business consulting firm, and an investment fund. The registered broker/dealer is analyzing various financing alternatives, primarily in the area of refinancing the Company's plant facility and the related leased equipment. The investor relations and business consulting firm is concentrating on marketing the Company and its business plan/strategy. The investment fund is planned to provide a three year equity line of credit arrangement to raise up to \$3,000,000.

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It is projected that the equity line of credit will take effect in the second quarter of 2005.

The Company believes that the business plan implementation needs to be accelerated to meet profitability goals and believes that can be accomplished upon obtaining sufficient capital. The Company is aggressively seeking the required capital.

The actual rate of growth in fertilizer and the related photochemical and silver sales necessary to achieve profitability is subject to a number of uncertainties, including the annual seasonal nature of fertilizer sales related to crop cycles, short term weather patterns in specific markets, and the availability of funding to support sales growth.

IV. Growth Plans and Implementation

For a number of years the Company's main focus has been on its Photochemical Fertilizer Division. This Division, operated by its wholly-owned subsidiary Itronics Metallurgical, Inc., has been perfecting the GOLD n GRO line of liquid fertilizers and developing large volume markets for them. Much of the pioneering development work is now complete, and the Division has commenced commercial operations. The Mining Technical Services Division, operated by its wholly-owned subsidiary WWI, worked for a number of years with a limited number of clients helping them develop their projects or solve various types of mining related problems. Much of the work required by these clients has now been completed.

During the second quarter of 2004 the Company upgraded its web site, <http://www.itronics.com> with significantly improved features. Early in the third quarter of 2004 the Company announced the formation of three new web sites,

www.itromet.com for Itronics Metallurgical, Inc., www.whitneywhitney.com for Whitney & Whitney, Inc., and www.goldngro.com for GOLD n GRO fertilizer.

Acquisition of web addresses and establishment of the new web sites implements another part of Itronics growth strategy. Creating and operating separate sites for the subsidiaries and for GOLD'n GRO liquid fertilizers makes it easier for customers, suppliers, and investors to do business and to communicate with Itronics and its operating units. The Company's plan is to expand content of the individual web pages and to expand the Company's ability to conduct "e-commerce" as the Company completes the transition from being a small research and development company into a large commercial processing and manufacturing company. A new "e-commerce" plan which is being implemented by the Company's Mining Technical Services division is described herein.

With the successful completion of much of the pioneering development work by the Photochemical Fertilizer Division, and with the wrapping up of the Mining Technical Services long term consulting projects, the Company is implementing growth plans for both divisions that are expected to drive the Company's expansion well into the future. The status of these plans and their implementation is described for each division.

Photochemical Fertilizer Division (Itronics Metallurgical, Inc.)

This division has developed an eight-part approach to growth:

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1. Increase sales in the established territories.
2. Develop GOLD'n GRO fertilizer applications for more crops.
3. Expand sales to new territories.
4. Expand the GOLD'n GRO specialty fertilizer product line.
5. Complete development of and commercialize the new glass/tile products.
6. Develop and commercialize environmentally friendly metal leaching reagents for recovery of silver, gold, and other metals by mining companies as a replacement for cyanide and other toxic chemicals.
7. Continue facilities expansion and technology development.
8. Acquire established companies and/or their technologies.

Plans and status of implementing each of the growth categories is explained in more detail in the following sections.

(1) Increase sales in the established territories.

GOLD'n GRO Fertilizers. The Company is selling into and /or developing applications for the three major fertilizer segments. These are:

- a. The Urban Market, which includes Home Lawn and Garden, Landscape Construction and Maintenance, and Nursery and Greenhouse markets, and Golf Courses.
- b. Specialty Agriculture which includes Avocados, Citrus, Grapes, Fruit and Nut Trees, and Vegetables.
- c. Bulk Field Crops which include alfalfa, cereal grains, corn, cotton, and soybeans.

The Company's primary focus is to increase bulk GOLD'n GRO liquid fertilizer sales as rapidly as possible. This is being achieved by expanding sales in the Specialty Agriculture segment and in the Bulk Field Crops segment. There are on-going small package sales in the Urban Market, but these are small relative to the other two segments.

Sales growth of GOLD'n GRO liquid fertilizers is being generated by a broader base of distributor stores selling the products, more of the distributors' sales force participating in the sales programs, and more products being sold in bulk truck load quantities.

GOLD'n GRO liquid fertilizer sales increased by 84% percent in 2004 compared to 2003. Fertilizer sales did not increase as expected in the first quarter of 2005 due to an unusually long and continued rainy season in central California. This weather pattern has continued into late May and may affect overall second quarter sales as well. Our distributor network is informing us that the delay in getting the fertilizer season started will most likely only extend the season, not cause a loss in overall fertilizer sales. However, certain crops have multiple harvests each season, so it is possible that one or more harvests may eventually be lost for the season, which could affect overall fertilizer sales.

Photochemical Waste Management Services.

The rapid growth in silver halide photofinishing for digital photographers continued to increase the Company's volume of used silver-bearing photoliquids with a 31 percent increase in 2004 compared to 2003. This growth occurred within

the Company's existing customer base in northern Nevada and northern California. In December 2004, however, the Company services to a significant photochemical waste management customer were terminated by mutual agreement, resulting in a significant decline in used photochemical volume in the first quarter of 2005. The photochemical volume from this customer had been growing so rapidly that the supply was exceeding the Company's demand for the chemicals needed in fertilizer manufacturing, resulting in storage costs and plant inefficiencies. It is anticipated that there is enough photochemical raw material in storage to meet fertilizer production needs for at least twelve months. The termination of services to this customer will allow the plant time to catch up on photochemical processing, which will reduce storage costs and increase efficiency in the plant. The Company is focusing on sales of Photochemical Silver Concentrators as discussed below to replace the lost revenue.

Silver. Silver sales declined by 38 percent in the first quarter of 2005 compared to the prior year quarter. The decrease is primarily attributable to reduced sales of Silver Nevada Miner silver bars. Silver sales from photochemical processing are expected to increase significantly in 2005.

Photochemical Concentrators.

Beginning in 2001 the Company developed an advanced design for a Photochemical Silver Concentrator that produces water pure enough to be used to make up new photo fixer chemicals, presenting the photoprocessor with the opportunity to reuse the water and thereby achieve 100 percent recycle of the used photochemical waste stream. The Photochemical Silver Concentrator also produces concentrates, which, after demetallization, are suitable for use in GOLD'n GRO fertilizer manufacturing. During the first quarter of 2005 the Company received an order for two

Concentrators and several leads and viable requests for proposal from several other potential customers. The Company presently has proposals out to potential customers that could lead to more than \$500,000 in sales of the Photochemical Silver Concentrators. This marks the beginning of a shift in market focus from obtaining the majority of photochemical raw materials by picking up the materials by truck directly from the customer's location to obtaining the majority of its photochemical raw materials by receiving concentrated material through the interstate commercial trucking system.

(2) Develop GOLD'n GRO fertilizer applications for more crops. Based on the Company's experience to date, it takes about 3 years to develop and commercialize a new GOLD'n GRO fertilizer crop application for each fertilizer product.

Several new crop applications are being evaluated for several of the GOLD'n GRO fertilizer products. The Company and its distributor sales force are demonstrating that several of the GOLD'n GRO "field ready" blends provide improved nutrition uptake when applied foliar which creates opportunities for use on lower value large acreage field crops. Three new foliar applications that are being developed specifically for the dairy cow feed market that are working well are the use of GOLD'n GRO applied foliar on young oats, GOLD'n GRO applied foliar on alfalfa, and GOLD'n GRO applied foliar on silage corn. These are large acreage markets that require bulk truck load quantities of GOLD'n GRO products. These new developments expand the foliar application markets for GOLD'n GRO fertilizers and open up the potential for economical large scale use in other parts of the United States.

Field trials in California whose objectives are to demonstrate different aspects of GOLD'n GRO product use were on hold during the first quarter of 2005 due to rainy weather. Field trials

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were started in Idaho, Oregon, and Washington during the quarter. GOLD'n GRO lawn and landscape application trials were started in Rhode Island early in the second quarter. Several new trials will be started in California in the second quarter and field observations will continue for up to a year at locations where GOLD'n GRO soil conditioning effects are being examined. All trials are comparisons to standard grower fertilization practice presently in use.

The new GOLD'n GRO base liquid is helping reduce plugging problems commonly encountered in drip and micro-sprinkler irrigation. In certain locations that have poor water quality the GOLD'n GRO base liquid is improving proprietary field fertilizer mix stability. At other locations, use of the GOLD'n GRO base liquid also is improving plant nutrient uptake from the soil, especially when used in combination with one or more of the GOLD'n GRO chelated nutrient metal products. The target market for GOLD'n GRO base liquid is to have it used as an integral component of distributor proprietary field mixes with the usage tailored to achieve specific mix objectives.

A new GOLD'n GRO base liquid nutrition program has been developed and is now being marketed by the distributor network. The program is called the "Gallon and a Quart" or "4 + 1" program. It calls for one gallon of GOLD'n GRO base liquid for each quart of GOLD'n GRO chelated micronutrient metal used in soil applications. Field demonstrations are showing that mineral nutrient availability in the soil is improved when this program is used and that nutrition uptake by the plants is greatly improved. Production increases are being observed and the program is cost effective. Adoption of this program by the distributor network over the next two to three years is expected to produce a very substantial increase in the volumes of GOLD'n GRO fertilizers that will be sold.

A group of trials were conducted in 2004 to evaluate low rate (1 to 2 gallons per acre) foliar application of GOLD'n GRO 8-8-8 + 4%S(sulfur) with one of the GOLD'n GRO chelated zinc products at second, third, fourth, or fifth cutting for alfalfa being grown for dairy cow feed. The nutrient content of the alfalfa was improved, in some cases to the highest quality ratings, and the amount of hay produced per acre was increased by up to 25 percent. This benefits the dairy because less nutrient supplements are required for feeding the cows, thus reducing dairy operating expenses. The target market is large with more than 23 million acres of alfalfa being grown in the United States.

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Trials were used to evaluate low rate (1 to 2 gallons per acre) foliar application of GOLD'n GRO 8-8-8 + 4%S and GOLD'n GRO 20-1-7 + 3%S on silage corn and field corn. A positive growth response was obtained and in one trial the corn put out tassels earlier. In another trial the height of the corn stalks was increased from eight to nine feet to 11 to 12 feet. This amount of growth increase would increase silage production by about 30 percent. This greater corn stalk mass is beneficial to the dairy farmers growing silage corn for cattle feed. A benefit of accelerated growth of grain corn would be earlier harvest, which provides a number of benefits including lower risk of loss due to frost and fall rains, and possibly lower drying cost. The target markets for these applications are large with more than 79 million acres of grain and silage corn being grown in the United States. Fertilization applications for corn are expected to become more important as the use of domestically grown corn to

Cash Flows From Financing Activities

Revolving debt and notes payable to banks, net

3,124 (18,181)

Other debt borrowings

40,440 1,552

Other debt repayments

(2,532) (4,660)

Dividends paid

(5,170) (4,632)

Purchase of treasury stock

(3,750) (998)

Stock option exercises

3,109 660

Excess tax benefit from stock options and awards

2,076 328

Other, net

(1,273) (466)

Net Cash Provided By (Used In) Financing Activities

36,024 (26,397)

Effect of Exchange Rate Changes on Cash

(765) (35)

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Net Increase in Cash and Cash Equivalents

19,324 47,567

Cash and Cash Equivalents at Beginning of Period

98,518 8,258

Cash and Cash Equivalents at End of Period

\$117,842 \$55,825

Supplemental Cash Flow Information

Cash payments of income taxes, net of refunds

\$13,930 \$7,086

Cash payments of interest

\$2,778 \$3,619

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

STEPAN COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010

Unaudited

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements included herein have been prepared by Stepan Company (Company), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations, although management believes that the disclosures are adequate and make the information presented not misleading. In the opinion of management, all normal recurring adjustments necessary to present fairly the Company's financial position as of June 30, 2010, its results of operations for the three and six months ended June 30, 2010 and 2009, and its cash flows for the six months ended June 30, 2010 and 2009, have been included. These financial statements and related footnotes should be read in conjunction with the financial statements and related footnotes included in the Company's 2009 Form 10-K.

2. RECONCILIATIONS OF EQUITY

Below are reconciliations of total equity, Company equity and equity attributable to the noncontrolling interest for the six months ended June 30, 2010 and 2009:

<i>(In thousands)</i>	Total Equity	Stepan Company Equity	Noncontrolling Interest Equity
Balance at January 1, 2010	\$ 290,427	\$ 289,285	\$ 1,142
Net income	37,750	37,706	44
Dividends	(5,170)	(5,170)	
Common stock purchases ⁽¹⁾	(4,807)	(4,807)	
Stock option exercises	3,109	3,109	
Defined benefit pension adjustments, net of tax	756	756	
Translation adjustments	(8,674)	(8,674)	
Other ⁽²⁾	4,221	4,221	
Balance at June 30, 2010	\$ 317,612	\$ 316,426	\$ 1,186

STEPAN COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2010

Unaudited

<i>(In thousands)</i>	Total Equity	Stepan Company Equity	Noncontrolling Interest Equity
Balance at January 1, 2009	\$ 209,233	\$ 208,144	\$ 1,089
Net income (loss)	34,718	34,737	(19)
Dividends	(4,632)	(4,632)	
Common stock purchases ⁽¹⁾	(1,463)	(1,463)	
Stock option exercises	660	660	
2008 Profit sharing distribution settled in company stock	981	981	
Defined benefit pension adjustments, net of tax	477	477	
Translation adjustments	5,285	5,286	(1)
Other ⁽²⁾	3,366	3,366	
Balance at June 30, 2009	\$ 248,625	\$ 247,556	\$ 1,069

⁽¹⁾ Includes the value of Company shares purchased on the open market, the value of Company common shares tendered by employees to settle minimum statutory withholding taxes related to the receipt of performance awards and the value of Company shares tendered in lieu of cash for stock option exercises.

⁽²⁾ Primarily comprised of stock-based and deferred compensation activities.

3. FAIR VALUE DISCLOSURES

The following are the financial instruments held by the Company at June 30, 2010 and December 31, 2009, and descriptions of the methods and assumptions used to estimate the instruments' fair values:

Cash and cash equivalents

Carrying value approximates fair value because of the short maturity of the instruments.

Derivative assets and liabilities

Derivative assets and liabilities relate to the foreign currency exchange and forward electric contracts discussed in Note 4. Fair value and carrying value are the same because the contracts are recorded at fair value. The fair value of the foreign currency contracts was calculated as the difference between the present value of the forward foreign exchange rate at the reporting date and the contracted foreign exchange rate multiplied by the contracted notional amount. The fair value of the electric contracts was calculated by applying market rates at the reporting dates for contracts of similar terms to the open electric quantities. See the table that follows these financial instrument descriptions for the reported fair values of derivative assets and liabilities.

STEPAN COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2010

Unaudited

Long-term investments

Long-term investments are the mutual fund assets the Company holds to fund a portion of its deferred compensation liabilities. Fair value and carrying value are the same because the mutual fund assets are recorded at fair value. Fair values for the mutual funds were calculated using the published market price per unit at the reporting date multiplied by the number of units held at the reporting date. See the table that follows these financial instrument descriptions for the reported fair value of long-term investments.

Debt obligations

The Company's primary source of long-term debt financing is unsecured private placement notes with fixed interest rates and maturities. The fair value of fixed interest rate debt comprises the combined present values of scheduled principal and interest payments for each of the various loans, individually discounted at rates equivalent to those which could be obtained by the Company for new debt issues with durations equal to the average life to maturity of each loan. The discount rates are based on applicable duration U.S. Treasury rates plus market interest rate spreads to borrowers with credit ratings equivalent to those of the Company. The fair values of the Company's fixed-rate debt at June 30, 2010 and December 31, 2009, including current maturities, was estimated to be \$122,700,000 and \$78,545,000, respectively. The carrying value of the Company's fixed-rate debt was \$113,896,000 at June 30, 2010 and \$73,896,000 at December 31, 2009.

Debt at June 30, 2010 also included \$27,000,000 for an unsecured term loan that carried a variable interest rate of LIBOR plus a spread of 125 basis points as of June 30, 2010. As of the end of the second quarter, the current market spread over LIBOR for entities with credit ratings similar to the Company's was approximately 225 basis points. Using the current market spread to discount the scheduled principal and interest payment outflows calculated under the contractual spread, the Company estimates the fair value of the variable interest unsecured term loan at June 30, 2010, at approximately \$26,268,000 compared to a carrying value of \$27,000,000. At December 31, 2009, the fair value of the variable interest unsecured term loan was \$26,929,000 compared to a carrying value of \$28,500,000.

Because of the short-term nature of the remaining Company debt, the fair values for such debt approximate the carrying values.

STEPAN COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2010

Unaudited

The following tables present assets and liabilities measured at fair value as of June 30, 2010 and December 31, 2009 and the level within the fair value hierarchy in which the fair value measurements fall:

<i>(Dollars in thousands)</i>	June 2010	Level 1	Level 2	Level 3
Mutual fund assets	\$ 10,026	\$ 10,026	\$	\$
Derivative assets: ⁽¹⁾				
Foreign currency contracts	21		21	
Total assets at fair value	\$ 10,047	\$ 10,026	\$ 21	\$
Derivative liabilities: ⁽²⁾				
Foreign currency contracts	\$ 962	\$	\$ 962	\$
Forward electric contracts	524		524	
Total liabilities at fair value	\$ 1,486	\$	\$ 1,486	\$

<i>(Dollars in thousands)</i>	December 2009	Level 1	Level 2	Level 3
Mutual fund assets	\$ 10,539	\$ 10,539	\$	\$
Derivative assets: ⁽¹⁾				
Foreign currency contracts	3		3	
Total assets at fair value	\$ 10,542	\$ 10,539	\$ 3	\$
Derivative liabilities: ⁽²⁾				
Foreign currency contracts	\$ 244	\$	\$ 244	\$
Forward electric contracts	893		893	
Total liabilities at fair value	\$ 1,137	\$	\$ 1,137	\$

⁽¹⁾ Included in the receivables, net line in the condensed consolidated balance sheets.

⁽²⁾ Included in the accounts payable line in the condensed consolidated balance sheets.

4. DERIVATIVE INSTRUMENTS

The Company is exposed to certain risks relating to its ongoing business operations. The primary risk managed by the use of derivative instruments is foreign currency exchange risk. Specifically, the Company currently holds forward foreign currency exchange contracts that are not designated as any type of accounting hedge, as defined by generally accepted accounting principles. The Company uses these contracts to manage its exposure to exchange rate fluctuations on certain Company subsidiary accounts payable and accounts receivable balances that are denominated in currencies other than the entities' functional currencies. The forward foreign exchange contracts are recognized on the balance sheet as either an asset or a liability measured at fair value. Gains and losses arising from recording the foreign exchange contracts at fair value

are reported in earnings as offsets to the losses and gains reported in earnings arising from the

STEPAN COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2010

Unaudited

remeasurement of the accounts payable and accounts receivable balances into the applicable functional currencies. At June 30, 2010, and December 31, 2009, the Company had open forward foreign currency exchange contracts, all with expiration dates of three months or less, to buy or sell foreign currencies with a U.S. dollar equivalent of \$34,865,000 and \$30,332,000, respectively.

At June 30, 2010, and December 31, 2009, the Company also held open forward electric contracts to purchase 53,000 megawatts and 107,000 megawatts, respectively, of electricity at fixed prices in 2010. The Company entered into the contracts to help manage the volatile cost of electricity. The electric contracts were not designated as accounting hedges and did not qualify for the normal purchase exception.

See Note 3 for the fair values and line item presentations of derivative instruments reported in the June 30, 2010, and December 31, 2009, consolidated balance sheets.

Derivative instrument gains and losses reported in the consolidated statements of income for the three and six month periods ending June 30, 2010 and 2009, are displayed below:

<i>(Dollars in thousands)</i>	Income Statement Line Item	Gain (Loss)			
		Three Months Ended		Six Months Ended	
		June 30 2010	2009	June 30 2010	2009
Derivative Instrument					
Foreign currency contracts	Other, net	\$ (1,524)	\$ 758	(\$ 744)	(\$ 137)
Forward electric contracts	Cost of Sales	616		369	

5. STOCK-BASED COMPENSATION

On June 30, 2010, the Company had stock options outstanding under its 1992 and 2000 Stock Option Plans and stock options and stock awards outstanding under its 2006 Incentive Compensation Plan. Compensation expense charged against income for all stock options and awards was \$934,000 and \$1,806,000 for the three and six months ended June 30, 2010, compared to \$1,181,000 and \$2,401,000, respectively, for the three and six months ended June 30, 2009. Unrecognized compensation cost for stock options and stock awards was \$1,748,000 and \$3,423,000, respectively, at June 30, 2010, compared to \$913,000 and \$2,485,000, respectively, at December 31, 2009. The increase in unrecognized compensation expenses was primarily due to 2010 grants of 94,736 stock options and 43,583 stock awards. The unrecognized compensation cost at June 30, 2010, is expected to be recognized over weighted average periods of 1.4 years and 2.1 years for stock options and performance stock awards, respectively.

STEPAN COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2010

Unaudited

6. INVENTORIES

The composition of inventories was as follows:

<i>(Dollars in thousands)</i>	June 30, 2010	December 31, 2009
Finished products	\$ 54,867	\$ 45,842
Raw materials	31,890	28,851
Total inventories	\$ 86,757	\$ 74,693

Inventories are primarily priced using the last-in, first-out inventory valuation method. If the first-in, first-out inventory valuation method had been used for all inventories, inventory balances would have been approximately \$28,035,000 and \$24,182,000 higher than reported at June 30, 2010, and December 31, 2009, respectively.

7. CONTINGENCIES

There are a variety of legal proceedings pending or threatened against the Company. Some of these proceedings may result in fines, penalties, judgments or costs being assessed against the Company at some future time. The Company's operations are subject to extensive local, state and federal regulations, including the 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 related to or has been named by the government as a PRP at a number of waste disposal sites where clean up costs have been or may be incurred under CERCLA and similar state statutes. In addition, damages are being claimed against the Company in general liability actions for alleged personal injury or property damage in the case of some disposal and plant sites. The Company believes that it has made adequate provisions for the costs it may incur with respect to these sites.

The Company has estimated a range of possible environmental and legal losses from \$7.2 million to \$31.1 million at June 30, 2010. At June 30, 2010, 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 \$16.3 million, compared to \$17.1 million at December 31, 2009. During the first six months of 2010 and 2009, cash outlays related to legal and environmental matters approximated \$1.6 million.

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 financial position, cash flows and 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 and results of operations for those periods could be material. However, based upon the Company's present belief as to its relative involvement at these sites, other viable entities' responsibilities for cleanup, and the extended period over which any costs would be incurred, the Company believes that these matters, individually and in the aggregate, will not have a material effect on the Company's financial position.

STEPAN COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2010

Unaudited

Following are summaries of the material contingencies at June 30, 2010:

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 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 February 2010 and June 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.

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.

STEPAN COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2010

Unaudited

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.

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 the second quarter of 2009, after

STEPAN COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2010

Unaudited

considering the Feasibility Study and Proposed Plan for Remediation, the Company revised its estimated range of possible losses for the site and increased its recorded liability. Recording the additional liability did not have a material effect on the Company's financial position, results of operations or cash flows. In September 2009, USEPA signed the Record of Decision. After considering the signed Record of Decision, the Company determined no further adjustments to its liability or range of losses for the site, were necessary. USEPA issued an Administrative Order for Remedial Design and Remedial Action to some of the PRPs in June 2010, which requires the PRPs to implement the remedy USEPA selected in the Record of Decision. Discussions among the PRPs concerning allocation and compliance with the orders are continuing.

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 first quarter of 2010 (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.

STEPAN COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2010

Unaudited

8. POSTRETIREMENT BENEFIT PLANS

Defined Benefit Pension Plans

The Company sponsors various funded qualified and unfunded non-qualified defined benefit pension plans, the most significant of which cover employees in the U.S. and U.K. locations. The U.S. and U.K. defined benefit pension plans are frozen and service benefits are no longer being accrued.

Components of Net Periodic Benefit Cost

<i>(Dollars in thousands)</i>	UNITED STATES			
	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2010	2009	2010	2009
Interest cost	\$ 1,767	\$ 1,775	\$ 3,534	\$ 3,550
Expected return on plan assets	(1,962)	(1,856)	(3,924)	(3,713)
Amortization of net loss	535	366	1,070	733
Net periodic benefit cost	\$ 340	\$ 285	\$ 680	\$ 570

<i>(Dollars in thousands)</i>	UNITED KINGDOM			
	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2010	2009	2010	2009
Interest cost	\$ 250	\$ 210	\$ 512	\$ 409
Expected return on plan assets	(210)	(139)	(428)	(271)
Amortization of net loss	67	20	136	39
Net periodic benefit cost	\$ 107	\$ 91	\$ 220	\$ 177

*Employer Contributions**U.S. Plans*

The Company expects to contribute approximately \$2,757,000 to its U.S. qualified defined benefit pension plans in 2010 and to pay \$350,000 in 2010 related to its unfunded non-qualified plans. As of June 30, 2010, \$794,000 had been contributed to the qualified plans and \$150,000 had been paid related to the non-qualified plans.

U.K. Plan

The Company's United Kingdom subsidiary expects to contribute approximately \$921,000 to its defined benefit pension plan in 2010. As of June 30, 2010, \$435,000 had been contributed to the plan.

STEPAN COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2010

Unaudited

Defined Contribution Plans

Defined contribution plan expense for the Company's retirement savings plans was \$1,170,000 and \$2,294,000, respectively, for the three and six months ended June 30, 2010, compared to \$1,216,000 and \$2,423,000, respectively, for the three and six months ended June 30, 2009.

Expenses related to the Company's profit sharing plan were \$1,350,000 and \$2,726,000, respectively, for the three and six months ended June 30, 2010, compared to \$1,339,000 and \$2,283,000, respectively, for the three and six months ended June 30, 2009.

9. EARNINGS PER SHARE

Below is the computation of basic and diluted earnings per share for the three and six months ended June 30, 2010 and 2009.

<i>(In thousands, except per share amounts)</i>	Three Months Ended		Six Months Ended	
	June 30 2010	June 30 2009	June 30 2010	June 30 2009
Computation of Basic Earnings per Share				
Net income attributable to Stepan Company	\$ 17,046	\$ 19,584	\$ 37,706	\$ 34,737
Deduct dividends on preferred stock	188	189	376	378
Income applicable to common stock	\$ 16,858	\$ 19,395	\$ 37,330	\$ 34,359
Weighted-average number of common shares outstanding	10,160	9,786	10,130	9,781
Basic earnings per share	\$ 1.66	\$ 1.98	\$ 3.69	\$ 3.51
Computation of Diluted Earnings per Share				
Net income attributable to Stepan Company	\$ 17,046	\$ 19,584	\$ 37,706	\$ 34,737
Weighted-average number of common shares outstanding	10,160	9,786	10,130	9,781
Add net shares issuable from assumed exercise of options (under treasury stock method) ⁽¹⁾	273	232	267	198
Add contingently issuable net shares related to performance stock awards and unvested stock awards (under treasury stock method)	63	66	32	33
Add weighted-average shares issuable from assumed conversion of convertible preferred stock	622	628	623	628
Shares applicable to diluted earnings	11,118	10,712	11,052	10,640
Diluted earnings per share	\$ 1.53	\$ 1.83	\$ 3.41	\$ 3.26

⁽¹⁾ Options to purchase 4,276 and 75,861 shares of common stock were not included in the computations of diluted earnings per share for the three and six months ended June 30, 2009, respectively. The options' exercise prices were greater than the average market price for the common stock and their effect would have been antidilutive. There were no antidilutive stock options for the three and six months ended

June 30, 2010.

STEPAN COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2010

Unaudited

10. COMPREHENSIVE INCOME

Comprehensive income includes net income and all other non-owner changes in equity that are not reported in net income. Below is the Company's comprehensive income for the three and six months ended June 30, 2010 and 2009:

<i>(Dollars in thousands)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Net income	\$ 17,069	\$ 19,560	\$ 37,750	\$ 34,718
Other comprehensive income:				
Foreign currency translation gains (losses)	(7,842)	11,451	(8,674)	5,285
Pension liability adjustments, net of tax	377	239	756	477
Comprehensive income	9,604	31,250	29,832	40,480
Comprehensive (income) loss attributable to the noncontrolling interest	(23)	22	(44)	20
Comprehensive income attributable to Stepan Company	\$ 9,581	\$ 31,272	\$ 29,788	\$ 40,500

11. SEGMENT REPORTING

The Company has three reportable segments: surfactants, polymers and specialty products. Segment operating results for the three and six months ended June 30, 2010 and 2009, are summarized below:

<i>(Dollars in thousands)</i>	Surfactants	Polymers	Specialty Products	Segment Totals
<u>For the three months ended June 30, 2010</u>				
Net sales	\$ 264,567	\$ 90,893	\$ 11,044	\$ 366,504
Operating income	26,735	10,512	3,776	41,023
<u>For the three months ended June 30, 2009</u>				
Net sales	\$ 238,480	\$ 71,130	\$ 11,589	\$ 321,199
Operating income	29,174	11,133	3,976	44,283
<u>For the six months ended June 30, 2010</u>				
Net sales	\$ 526,880	\$ 154,003	\$ 22,651	\$ 703,534
Operating income	55,988	17,164	7,999	81,151
<u>For the six months ended June 30, 2009</u>				
Net sales	\$ 498,114	\$ 119,843	\$ 21,385	\$ 639,342
Operating income	53,360	13,736	5,639	72,735

STEPAN COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2010

Unaudited

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

<i>(Dollars in thousands)</i>	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2010	2009	2010	2009
Operating income segment totals	\$ 41,023	\$ 44,283	\$ 81,151	\$ 72,735
Unallocated corporate expenses	(11,251)	(13,095)	(17,724)	(15,378)
Interest expense, net	(1,510)	(1,585)	(2,766)	(3,427)
Loss from equity in joint ventures	(764)	(286)	(1,335)	(1,093)
Other, net	(1,111)	1,310	(1,333)	1,041
Consolidated income before income taxes	\$ 26,387	\$ 30,627	\$ 57,993	\$ 53,878

12. DEBT

At June 30, 2010, and December 31, 2009, debt comprised the following:

<i>(Dollars in thousands)</i>	Maturity Dates	June 30 2010	December 31 2009
Unsecured private placement notes			
5.88%	2016-2022	\$ 40,000	
5.69%	2012-2018	40,000	\$ 40,000
6.86%	2010-2015	25,714	25,714
6.59%	2010-2012	8,182	8,182
Unsecured bank term loan	2010-2013	27,000	28,500
Debt of foreign subsidiaries			
Secured bank term loans, foreign currency	2010		776
Other, foreign currency	2010-2015	4,027	912
Build-to-suit obligation		4,811	
Total		149,734	104,084
Less current maturities		12,516	10,173
Long-term debt		\$ 137,218	\$ 93,911

On June 1, 2010, the Company completed a new \$40.0 million private placement loan with three insurance companies, with loan proceeds to be used for capital expenditures and other corporate purposes. This new loan bears fixed interest at 5.88 percent per annum payable semi-annually with equal annual principal repayments from 2016 through final maturity in 2022. Terms and conditions of this agreement are substantially the same as those in the agreement covering the Company's 5.69 percent notes issued in 2005.

On January 19, 2010, the Company entered into a build-to-suit lease agreement for the construction of a warehouse at its Millsdale (Joliet), Illinois, manufacturing site. For accounting purposes, the Company is considered the owner of the asset during the construction period. As such, an asset and a financial obligation have been recorded related to the agreement.

STEPAN COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2010

Unaudited

The various loan agreements contain provisions, which, among others, require maintenance of certain financial ratios and place limitations on additional debt, investments and payment of dividends. The Company is in compliance with its loan agreements.

13. OTHER, NET

Other, net in the consolidated statements of income included the following:

<i>(Dollars in thousands)</i>	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2010	2009	2010	2009
Foreign exchange gain (loss)	\$ (425)	\$ 470	\$ (996)	\$ 558
Investment related income	15	19	30	31
Realized and unrealized income (loss) on investments	(701)	821	(367)	452
Other, net	\$ (1,111)	\$ 1,310	\$ (1,333)	\$ 1,041

14. SUBSEQUENT EVENTS

On July 2, 2010, the Company purchased the manufacturing assets of Peter Cremer GmbH located on Jurong Island in Singapore. The purchase price of the manufacturing assets was \$10,400,000, which the Company paid from available cash. The Company plans to install methyl esters fractionation capability on the site. Methyl esters are a core building block of the Company's surfactants segment, and the acquisition of the Jurong Island manufacturing assets provides the Company an opportunity to reach its global customer base with methyl esters and value added derivatives made from tropical oils available in the region. The Company plans for the site to begin methyl esters production by the end of 2011.

On July 15, 2010, the Company's Stepan Europe subsidiary acquired all the shares of Alfa Systems Sp, z o.o. (Alfa Systems). The purchase included a plant in Brzeg Dolny, Poland, which specializes in the manufacture of aromatic polyester polyol from recycled polyethylene terephthalate. Polyester polyols are the critical component of the Company's polymers segment. The acquisition of Alfa Systems provides the Company manufacturing capability in Eastern Europe and the ability to economically and effectively serve customers in Central and Eastern Europe. The purchase price of the acquisition was approximately \$9,100,000 (\$11,600,000) potentially reduced by \$2,500,000 for environmental remediation costs assumed by the Company and other possible acquisition claims that were unknown at the time of acquisition. The acquisition was financed using local (France) bank debt. The allocation of the purchase price has not yet been made as valuations of the assets and liabilities are ongoing.

On July 19, 2010, the Company purchased controlling interest of the Stepan Philippines Inc. (SPI) joint venture, raising the Company's ownership interest in the venture from 50 percent to 88.8 percent. In July, the Company paid \$3,709,000 of cash to purchase the interests of one owner, transferred \$1,989,000 of cash to SPI as an additional

STEPAN COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2010

Unaudited

capital investment (i.e. subscribed to new shares) and capitalized a \$3,900,000 liability originally due the Company pursuant to a royalty agreement between the Company and SPI. The allocation of the purchase price has not yet been made as valuations of the assets and liabilities are ongoing.

15. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2009, the Financial Accounting Standards Board issued amendments to the accounting rules for variable interest entities (VIEs), which are intended to improve financial reporting by providing additional guidance to companies involved with VIEs and by requiring additional disclosures about a company's involvement in VIEs. These amendments were effective for interim and annual periods beginning after November 15, 2009. After considering the provisions of the VIE amendments, the Company concluded that none of the unconsolidated entities in which the Company holds an ownership interest were required to be treated as VIEs. Therefore, adoption of these amendments did not have an effect on the Company's financial position, results of operations or cash flows.

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

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

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 75 percent of consolidated net sales for the first half of 2010, 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 22 percent of consolidated net sales for the first half of 2010, 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 the first half of 2010, 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.

First half sales volume for 2010 was seven percent ahead of 2009 first half volume. The Company's largest segment, surfactants, reported four percent quarter-over-quarter and five percent year-over-year volume growth. The economic downturn had less of an impact on surfactant sales volume due to their use in laundry and personal care products, which are

relatively recession-resistant. Polymers, which was the segment most severely affected by the economic downturn (polymer products are used in roofing insulation, construction materials, automotive and recreational vehicle applications), posted second quarter 2010 sales volume that exceeded second quarter 2009 volume by 16 percent, while sales volume for the first half of the year were up 19 percent over last year's first half.

Deferred Compensation Plans

The accounting for the Company's deferred compensation plans and investment assets related to the plans can cause period-to-period fluctuations in Company expenses and profits. For the second quarter of 2010, the Company recorded \$3.4 million in total expense related to the Company's deferred compensation plans compared to \$4.6 million of expense for the same period of 2009. For the six months ended June 30, 2010, total expense related to the Company's deferred compensation plans was \$1.3 million compared to income of \$0.6 million for the six months ended June 30, 2009. 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):

<i>(Dollars in millions)</i>	(Income) Expense			
	Three Months Ended		Six Months Ended	
	June 30	June 30	June 30	June 30
	2010	2009	2010	2009
Deferred Compensation (Administrative Expense)	\$ 2.7	\$ 5.4	\$ 0.9	\$ (0.1)
Investment Income (Other, net)				
Realized and Unrealized (Gains) Losses on Investments (Other, net)	0.7	(0.8)	0.4	(0.5)
Net Pretax Income Effect	\$ 3.4	\$ 4.6	\$ 1.3	\$ (0.6)

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 quarter ended June 30, 2010, the impact of foreign currency translation was negligible on Company profits. For the first half of 2010, the U.S. dollar was weaker against nearly all the foreign currencies, except the European euro, in the locations where the Company does business, when compared to the exchange rates for the first half of 2009. Consequently, reported net sales, expense and income amounts for 2010 were higher than they would have been had the foreign currency exchange rates remained constant with the rates for 2009. Below is a table that presents the effect that foreign currency translation had on the year-to-year changes in consolidated net sales and various income line items for the first half ending June 30, 2010:

<i>(In millions)</i>	Six Months Ended June 30		Increase	Increase Due to Foreign Translation
	2010	2009		
Net Sales	\$ 703.5	\$ 639.3	\$ 64.2	\$ 12.4
Gross Profit	127.0	114.4	12.6	2.2
Operating Income	63.4	57.4	6.0	1.7
Pretax Income	58.0	53.9	4.1	1.4

RESULTS OF OPERATIONS*Three Months Ended June 30, 2010 and 2009**Summary*

Net income for the second quarter of 2010 declined 13 percent to \$17.0 million, or \$1.53 per diluted share, compared to \$19.6 million, or \$1.83 per diluted share, for the second quarter of 2009. Below is a summary discussion of the major factors leading to the quarter-over-quarter changes in net sales, profits and expenses. A detailed discussion of segment operating performance for the second quarter of 2010 follows the summary.

Consolidated net sales increased \$45.3 million, or 14 percent, quarter over quarter. Higher average selling prices and sales volumes accounted for approximately \$25.5 million and \$19.9 million, respectively, of the net sales increase. The net effects of foreign currency translation were insignificant. The increase in average selling prices reflected higher raw material costs. Sales volumes increased six percent, reflecting improvements in the economy and successful execution of specific opportunities in core markets. Polymers and surfactants segments sales volumes were up 16 percent and four percent, respectively.

Operating income for the second quarter of 2010 declined \$1.4 million, or five percent, from operating income for the second quarter of 2009. Gross profit decreased \$2.2 million, or three percent. Surfactants segment gross profit was down \$1.7 million, or four percent; polymers segment gross profit decreased \$0.4 million, or three percent; and gross profit for the specialty products segment dropped \$0.2 million, or four percent. The impact of higher raw material costs more than offset the effects of higher sales volume and average selling prices.

Operating expenses declined \$0.8 million, or two percent, from quarter to quarter. Major items accounting for the expense increase were as follows:

<i>(Dollars in millions)</i>	Increase (Decrease)
Deferred Compensation Expense	\$ (2.7)
Bad Debt Expense	(1.1)
Salary Fringe Benefits	(0.5)
European Product Registration	0.4
Travel Expense	0.5
Consulting Expense	0.8
Salary Expense	0.8
Other	1.0
Total	\$ (0.8)

The reduction in deferred compensation expense was attributable to changes in the values for the mutual fund assets and Company common stock to which the deferred compensation obligation is tied. See the Overview and Corporate Expenses sections of this management discussion and analysis for further details. Bad debt expenses declined as a result of lower reserve requirements, particularly for previously identified high-risk accounts. Salary fringe benefits were down quarter-over-quarter due primarily to lower bonus expense, which reflected higher performance targets. European product registration reflected higher expenses for registering the Company's products under Europe's Registration, Evaluation, Authorisation and Restriction of Chemical Substances (REACH) regulation. The increase in travel-related expenses was due to the unusually low expenses in the prior year that resulted from the Company's restriction of travel implemented during the economic recession. Higher salary expense reflected increased personnel and normal pay raises. The increase in the number of employees was attributable to filling open positions and the addition of positions for the Company's expanded efforts in Asia.

The loss from equity joint ventures, which includes results for the 50-percent owned SPI and TIORCO joint ventures, increased \$0.5 million from quarter to quarter. Equity in SPI's income fell \$0.3 million between quarters and equity in TIORCO's loss increased \$0.2 million. The Company also sells surfactant products to TIORCO customers. The sales and resulting income from the sales are included in the Company's surfactants segment operating results.

The other, net line item of the consolidated statement of income includes investment related income (i.e. dividends, interest and realized and unrealized gains and losses) associated with the Company's mutual fund assets held for the deferred compensation plans and foreign

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exchange gains and losses. Other, net was \$1.1 million of expense for the second quarter of 2010 compared to \$1.3 million of income for the same period of 2009. Unfavorable swings of \$1.5 million and \$0.9 million in realized and unrealized gains and losses on investments and foreign exchange gains and losses, respectively, accounted for the \$2.4 million quarter-over-quarter unfavorable other, net change.

The effective tax rate was 35.3 percent for the second quarter ended June 30, 2010, compared to 36.1 percent for the second quarter ended June 30, 2009. The decrease in the effective tax rate was primarily attributable to an increase in the domestic production activities deduction.

Segment Results

<i>(Dollars in thousands)</i>	Surfactants	Polymers	Specialty Products	Segment Results	Corporate	Total
For the three months ended June 30, 2010						
Net sales	\$ 264,567	\$ 90,893	\$ 11,044	\$ 366,504		\$ 366,504
Operating income	26,735	10,512	3,776	41,023	(11,251)	29,772
For the three months ended June 30, 2009						
Net sales	\$ 238,480	\$ 71,130	\$ 11,589	\$ 321,199		\$ 321,199
Operating income	29,174	11,133	3,976	44,283	(13,095)	31,188

Surfactants

Surfactants net sales for the second quarter of 2010 increased \$26.1 million, or 11 percent, from net sales for the second quarter of 2009. Higher average selling prices, a four percent increase in sales volume and the effects of foreign currency translation accounted for approximately \$14.3 million, \$10.1 million and \$1.7 million, respectively, of the net sales change. A quarter-to-quarter comparison of net sales by region follows:

<i>(Dollars in thousands)</i>	For the Three Months Ended			
	June 30, 2010	June 30, 2009	Increase	Percent Change
North America	\$ 179,221	\$ 162,088	\$ 17,133	+11
Europe	58,478	51,410	7,068	+14
Latin America	26,868	24,982	1,886	+8
Total Surfactants Segment	\$ 264,567	\$ 238,480	\$ 26,087	+11

Net sales for North American operations grew 11 percent due to a five percent increase in sales volume, a four percent increase in average selling prices and the effects of foreign currency translation, which accounted for \$8.8 million, \$6.1 million and \$2.2 million, respectively, of the net sales change. Sales into all major market segments were up quarter over quarter due to the recovering economy and successful execution of specific opportunities in core markets. The higher average selling prices reflected increased costs for raw materials. The foreign currency translation effect resulted from the strengthening of the Canadian dollar against the U.S. dollar.

Net sales for European operations increased 14 percent due to higher average selling prices and a 10 percent increase in sales volume, which accounted for \$5.2 million and \$4.9 million, respectively, of the net sales increase. The unfavorable effects of foreign currency translation reduced the quarter-to-quarter change by \$3.0 million. Average selling prices increased nine percent due largely to higher raw material costs. The foreign currency impact was caused by the quarter-over-quarter weakening of the European euro and the U.K. pound sterling against the U.S. dollar.

Net sales for Latin American operations increased eight percent due to the effects of foreign currency translation and higher average selling prices, which accounted for \$2.4 million and \$1.9 million, respectively, of the increase. A 10 percent decline in sales volume reduced the quarter-over-quarter change by \$2.4 million. The favorable currency translation impact resulted from the strengthening of the currencies for all three Latin American locations against the U.S. dollar. Average selling prices for the second quarter of 2010 were eight percent higher than average prices for the same quarter of last year. A different product sales mix caused the increase in average selling prices. The sales volume decline reflected lower sales volume for the Company's Brazil subsidiary due to a planned shutdown to facilitate a plant expansion to be completed later in 2010.

Surfactants operating income for the second quarter of 2010 declined \$2.4 million, or eight percent, from operating income for the second quarter of last year. Despite the increase in sales volume, gross profit decreased \$1.7 million due largely to the impact of higher raw material costs. Operating expenses increased \$0.7 million, or four percent. Quarter-to-quarter comparisons of gross profit by region and total segment operating expenses and operating income follow:

<i>(Dollars in thousands)</i>	For the Three Months Ended		Increase (Decrease)	Percent Change
	June 30, 2010	June 30, 2009		
Gross Profit				
North America	\$ 34,365	\$ 35,704	\$ (1,339)	-4
Europe	5,535	7,170	(1,635)	-23
Latin America	4,425	3,190	1,235	+39
Total Surfactants Segment	\$ 44,325	\$ 46,064	\$ (1,739)	-4
Operating Expenses	17,590	16,890	700	+4
Operating Income	\$ 26,735	\$ 29,174	\$ (2,439)	-8

Gross profit for North American operations declined four percent for the quarter due to higher manufacturing costs related to higher maintenance costs and increased headcount. Selling price increases have been largely effective in recovering recent raw material cost increases. Further price increases have been announced for the third quarter of 2010.

Gross profit for European operations declined 23 percent primarily as a result of higher raw material costs, which have more than offset the impacts of the previously noted selling price and sales volume increases. Due to competitive pressures, selling price increases have lagged behind the rising costs of raw materials. Also negatively affecting the quarter-to-quarter change in gross profit was \$0.3 million for the negative effect of foreign currency translation.

Gross profit for Latin American operations improved 39 percent largely due to improved results for the region's Mexico subsidiary. Higher margins drove Mexico's profit improvement as the effects of higher selling prices and lower raw material costs more than offset the impact of lower sales volume for Latin American operations. A more favorable mix of sales for the region and \$0.4 million from the favorable effects of foreign currency translation also contributed.

Operating expenses for the surfactants segment were up \$0.7 million, or four percent, from quarter to quarter. The higher operating expenses were primarily due to \$0.6 million and \$0.4 million increases for European and Latin American operations, respectively, partially offset by a \$0.2 million decline in expenses for North American operations. Increased expenses related to registering the Company's products under Europe's REACH regulation (\$0.4 million) accounted for the higher European operations expenses, and increased marketing expenses (\$0.3 million) accounted for the higher Latin American operations operating expenses. The quarter-over-quarter change for North American operations included a \$0.9 million decrease in marketing expenses partially offset by a \$0.7 million increase in research and development expenses. Decreases in bad debt expense (\$1.2 million), due to reduced reserve requirements, accounted for the marketing expense decline. The increase in research and development expenses included numerous items, the largest of which was increased expense for contracted services and consulting (\$0.4 million).

Polymers

Net sales for the second quarter of 2010 increased \$19.8 million, or 28 percent, from net sales for the same quarter of 2009. A 16 percent increase in sales volume and a 10 percent increase in average selling prices accounted for \$11.2 million and \$10.4 million, respectively, of the increase in net sales. The effects of foreign currency translation reduced net sales by \$1.8 million. A quarter-to-quarter comparison of net sales by region is displayed below:

<i>(Dollars in thousands)</i>	For the Three Months Ended			
	June 30, 2010	June 30, 2009	Increase	Percent Change
North America	\$ 61,611	\$ 50,929	\$ 10,682	+21
Europe	23,803	16,916	6,887	+41
Asia and Other	5,479	3,285	2,194	+67
Total Polymers Segment	\$ 90,893	\$ 71,130	\$ 19,763	+28

Net sales for North American operations increased 21 percent due to a 12 percent increase in average selling prices and an eight percent increase in sales volume. The higher average selling prices and sales volume led to \$6.5 million and \$4.2 million, respectively, of the increase in net sales. The increase in average selling prices reflected rising raw material costs. Sales volume for phthalic anhydride and polyols increased 10 percent and eight percent, respectively, due primarily to an improving economy.

Net sales for European operations increased 41 percent due to a 33 percent increase in sales volume and a 13 percent increase in average selling prices, which accounted for \$5.6 million and \$3.1 million, respectively, of the growth in net sales. The higher quarter-over-quarter sales volume reflected improved economic conditions. Higher raw material costs led to the increase in average selling prices. The effects of foreign currency translation reduced the impact of the higher sales volume and selling prices by \$1.8 million.

Asia and Other operations net sales were up 67 percent from quarter to quarter due principally to increased sales volume for the Company's China joint venture. Higher average selling prices also contributed.

Polymers operating income for the second quarter of 2010 declined \$0.6 million from last year's second quarter operating income. Gross profit declined \$0.4 million, or three percent, due to lower unit margins for European operations. Below are quarter-to-quarter comparisons of gross profit by region and total segment operating expenses and operating income:

<i>(Dollars in thousands)</i>	For the Three Months Ended		Increase (Decrease)	Percent Change
	June 30, 2010	June 30, 2009		
Gross Profit				
North America	\$ 11,833	\$ 10,956	\$ 877	+8
Europe	2,789	4,315	(1,526)	-35
Asia and Other	418	216	202	+94
Total Polymers Segment	\$ 15,040	\$ 15,487	\$ (447)	-3
Operating Expenses	4,528	4,354	174	+4
Operating Income	\$ 10,512	\$ 11,133	\$ (621)	-6

The eight percent increase in gross profit for North American operations was entirely due to the previously noted eight percent improvement in sales volume. Unit margins remained unchanged from quarter to quarter as the increase in average selling prices was offset by increases in raw material costs. Raw material costs have risen, placing downward pressure on margins particularly for the region's polyol products. In a continued effort to stem profit erosion, the Company announced additional polyol selling price increases for the third quarter.

Gross profit for European operations declined 35 percent due to falling margins. The negative effects of rising raw material costs more than offset the impact of the 33 percent increase in sales volume. Selling prices have been raised but have not kept pace with the increases in the cost of raw materials. Price increases will continue to be made as the market allows.

The increase in gross profit for Asia and Other operations reflected higher sales volume for the Company's China joint venture.

The \$0.2 million increase in operating expenses was largely due to higher marketing expenses for North American operations.

Specialty Products

Net sales for the second quarter of 2010 were \$0.5 million, or five percent, lower than net sales for the second quarter of 2009. Quarter-over-quarter operating income decreased \$0.2 million. Lower sales volumes led to the net sales and operating income declines.

Corporate Expenses

Corporate expenses, which comprise expenses that are not allocated to the reportable segments, declined \$1.8 million to \$11.3 million for the second quarter of 2010 from \$13.1 million for the second quarter of 2009. A \$2.7 million decrease in deferred compensation expense accounted for the decline. The reduction in deferred compensation expense was attributable to changes in the values for the mutual fund assets and Company common stock to which the deferred compensation obligation is tied (the accounting for the deferred compensation plan results in income when the values of Company common stock or mutual funds held in the plan fall and expense when values rise). Specifically, the drop in deferred compensation expense reflected 1) a second quarter 2010 decline in the value of mutual fund assets compared to a second quarter 2009 increase in mutual fund value and 2) a smaller quarter-over-quarter increase in the value of Company common stock. The value of Company common stock increased \$12.54 from \$55.89 per share at March 31, 2010, to \$68.43 per share at June 30, 2010. For last year's second quarter, the Company's common stock price increased \$16.86 per share from \$27.30 per share at March 31, 2009, to \$44.16 per share at June 30, 2009. Higher quarter-over-quarter salary and consulting expenses partially offset the effect of the lower deferred compensation expense.

Six Months Ended June 30, 2010 and 2009

Summary

Net income for the first half of 2010 increased nine percent to \$37.7 million, or \$3.41 per diluted share, compared to \$34.7 million, or \$3.26 per diluted share, for the first half of 2009. All three reportable segments contributed to the favorable results. Below is a summary discussion of the major factors leading to the year-over-year changes in net sales, profits and expenses. A detailed discussion of segment operating performance for the first half of 2010 follows the summary.

Consolidated net sales for the first half of 2010 increased \$64.2 million, or 10 percent, from net sales for the same period last year. Higher sales volume, the effects of foreign currency translation and higher average selling prices accounted for approximately \$45.4 million, \$12.4 million and \$6.4 million, respectively, of the year-over-year increase in net sales. Sales volumes increased seven percent due to better economic conditions and successful execution of specific opportunities in core markets. All three segments reported increased sales volumes. Average selling prices increased due principally to rising raw material costs in the polymer segment.

Operating income for the first half of 2010 was \$6.1 million, or 11 percent, greater than operating income for the first half of 2009. Gross profit improved \$12.7 million, or 11 percent. All three segments contributed to the improvement in gross profit. Surfactants segment gross profit was up \$6.1 million, or seven percent; polymers segment gross profit increased \$4.0 million, or 18 percent; and gross profit for the specialty products segment was up \$2.3 million, or 32 percent. Higher sales volume benefited all segments. The effects of foreign currency translation contributed \$2.2 million to the year-to-year consolidated gross profit improvement.

Operating expenses increased \$6.6 million, or 12 percent, year over year. Major items accounting for the expense increase were as follows:

<i>(Dollars in millions)</i>	Increase (Decrease)
Salary Expense	\$ 1.1
Deferred Compensation Expense	1.0
Travel Expense	1.0
European Product Registration	0.9
Consulting Expense	0.9
Salary Fringe Benefits	0.6
Foreign Currency Translation	0.6
Bad Debt Expense	(0.9)
Other	1.4
Total	\$ 6.6

The increase in salary expense reflected increased personnel and normal pay raises. The increase in the number of employees was attributable to filling open positions and the addition of positions to support the Company's expanded efforts in Asia, as well as planned increased headcount to support the Company's innovation projects with the research and development group. The Company recorded \$0.9 million of deferred compensation expense for the first half of 2010 compared to \$0.1 million of income for the same period of 2009 an unfavorable change of \$1.0 million. The increase in the value of Company common stock, to which a large portion of the deferred compensation obligation is tied, accounted for the deferred compensation expense. See the Overview and Corporate Expenses sections of this management discussion and analysis for further details. The increase in travel-related expenses was due to the unusually low expenses in the prior year that resulted from the Company's restriction of travel implemented during the economic recession coupled with significant travel related to the Company's acquisition efforts in Poland and Singapore. European product registration reflected higher expenses for registering the Company's products under Europe's REACH regulation. The higher fringe benefit expenses reflected an increase in profit sharing expense, attributable to the improvement in Company earnings. The reduction in bad debt expenses was attributable to lower reserve requirements, particularly for previously identified high-risk accounts.

Interest expense for the first half of 2010 was \$0.7 million, or 19 percent, less than interest expense for the first half of 2009. Lower average debt levels led to the decline. Average debt levels and interest expense will increase in future periods as the Company borrowed \$40 million on June 1, 2010, in private placement notes. See the Liquidity and Capital Resources section of this management discussion and analysis.

The loss from equity joint ventures, which includes results for the 50-percent owned SPI and TIORCO joint ventures, increased \$0.2 million, or 22 percent, between years. The equity income in SPI increased \$0.1 million from year to year, while the equity loss in TIORCO increased \$0.3 million. The Company also sells surfactant products to TIORCO customers. The sales and resulting income from the sales are included in the Company's surfactants segment operating results.

The other, net line item of the consolidated statement of income includes investment related income (i.e. dividends, interest and realized and unrealized gains and losses) associated with the Company's mutual fund assets held for the deferred compensation plans and foreign exchange gains and losses. Other, net was expense of \$1.3 million for the first half of 2010 compared to income of \$1.0 million for the same period of 2009. Unfavorable swings of \$1.5 million and \$0.8 million for foreign exchange gains and losses and realized and unrealized gains and losses on investments, respectively, accounted for the \$2.3 million year-over-year unfavorable other, net change.

The effective tax rate was 34.9 percent for the first six months ended June 30, 2010, compared to 35.6 percent for the first six months ended June 30, 2009. The decrease in the effective tax rate was primarily attributable to an increase in the domestic production activities deduction.

Segment Results

<i>(Dollars in thousands)</i>	Surfactants	Polymers	Specialty Products	Segment Results	Corporate	Total
For the six months ended June 30, 2010						
Net sales	\$ 526,880	\$ 154,003	\$ 22,651	\$ 703,534		\$ 703,534
Operating income	55,988	17,164	7,999	81,151	(17,724)	63,427
For the six months ended June 30, 2009						
Net sales	\$ 498,114	\$ 119,843	\$ 21,385	\$ 639,342		\$ 639,342
Operating income	53,360	13,736	5,639	72,735	(15,378)	57,357

Surfactants

Surfactants net sales for the first half of 2010 were \$28.8 million, or six percent, greater than net sales for the first half of 2009. A five percent increase in sales volume and the effects of foreign currency translation accounted for approximately \$24.7 million and \$13.1 million, respectively, of the net sales change. Lower average selling prices, due largely to lower raw material costs, reduced the year-over-year change by \$9.0 million. A year-to-year comparison of net sales by region follows:

<i>(Dollars in thousands)</i>	For the Six Months Ended			
	June 30, 2010	June 30, 2009	Increase	Percent Change
North America	\$ 357,841	\$ 337,524	\$ 20,317	+6
Europe	118,058	110,446	7,612	+7
Latin America	50,981	50,144	837	+2
Total Surfactants Segment	\$ 526,880	\$ 498,114	\$ 28,766	+6

Net sales for North American operations increased six percent due to a six percent increase in sales volume and the effects of foreign currency translation, which accounted for \$21.2 million and \$5.9 million, respectively, of the net sales change. A two percent decline in average selling prices reduced the year-over-year change by \$6.8 million. Sales into all major market segments were up between years, reflecting recovery from the economic recession and successful execution of specific opportunities in core markets. The foreign currency translation effect resulted from the strengthening of the Canadian dollar against the U.S. dollar. The lower year-over-year average selling prices resulted from first quarter 2010 average prices that were seven percent lower than first quarter 2009 average prices. The first quarter selling price impact was partially offset by average selling prices for the second quarter of 2010 that were four percent greater than average prices for the second quarter of 2009. Selling prices rose in the second quarter of the current year due to higher raw material costs.

Net sales for European operations increased seven percent due to a four percent increase in sales volume, a two percent increase in average selling prices and the favorable effects of foreign currency translation, which accounted for \$3.9 million, \$2.8 million and \$0.9 million, respectively, of the net sales change. Higher raw material costs caused the increase in average selling prices.

Net sales for Latin American operations increased two percent due to the effects of foreign currency translation (accounting for \$6.2 million of the net sales change) partially offset by an 11 percent decline in average selling prices (a negative \$5.5 million impact on the net sales change). The favorable currency translation impact resulted from the strengthening of the currencies for all three Latin American locations against the U.S. dollar. A different product sales mix contributed to the decline in average selling prices. Sales volume was essentially unchanged between years due to increases for the Company's Brazil subsidiary offset by decreases for the Company's Colombia and Mexico subsidiaries.

Surfactants operating income for the first quarter of 2010 was \$2.6 million greater than operating income for the same period of 2009. Gross profit increased \$6.1 million due primarily to a five percent increase in sales volume. The effects of foreign currency translation contributed \$2.2 million of the favorable gross profit change. Operating expenses increased \$3.5 million, or 11 percent. Year-to-year comparisons of gross profit by region and total segment operating expenses and operating income follow:

<i>(Dollars in thousands)</i>	For the Six Months Ended		Increase (Decrease)	Percent Change
	June 30, 2010	June 30, 2009		
Gross Profit				
North America	\$ 71,603	\$ 62,901	\$ 8,702	+14
Europe	12,602	16,050	(3,448)	-21
Latin America	8,461	7,594	867	+11
Total Surfactants Segment	\$ 92,666	\$ 86,545	\$ 6,121	+7
Operating Expenses	36,678	33,185	3,493	+11
Operating Income	\$ 55,988	\$ 53,360	\$ 2,628	+5

Gross profit for North American operations increased 14 percent as a result of the previously noted six percent increase in sales volume and the effects of lower average year-over-year raw material costs. The impact of lower raw material costs occurred in the first quarter of 2010 when material costs remained lower than material costs for the same quarter of last year due to the economic recession that pressured raw material costs downward throughout most of 2009. Raw material costs actually increased in the second quarter of 2010, which led to 2010 second quarter gross profit declining \$1.3 million from second quarter 2009 gross profit. Third quarter 2010 selling price increases have been announced to mitigate the effects of rising raw material costs on profit margins.

Gross profit for European operations declined 21 percent as a result of higher raw material costs, which more than offset the effects of the four percent increase in sales volume. Selling price increases have not kept pace with the rising costs of raw materials.

Gross profit for Latin American operations was up 11 percent due to the favorable effects of foreign currency translation, which accounted for \$1.1 million of the year-to-year gross profit change. The remainder of the change (i.e. a \$0.2 million decline in gross profit) was primarily attributable to a change in sales mix.

Operating expenses for the surfactants segment were up \$3.5 million, or 11 percent, between years. The increase was primarily due to increases of \$1.3 million for both North American and European operations and a \$0.6 million foreign currency translation effect. Expenses for North American operations increased as a result of higher research and development (\$1.0 million) and marketing expenses (\$0.3 million). Research expenses increased as the Company continues to commit more resources to its innovation projects to drive commercial success, resulting in higher salaries, travel and consulting expenses. Marketing expenses rose on higher salaries, travel and consulting as resources were increased to support the Company's acquisition in Singapore and Asian growth plans. Favorable reductions in bad debt provisions partially offset the increases in marketing expense.

The \$1.3 million increase in European operations expenses were principally attributable to expenses related to registering the Company's products under Europe's REACH regulation (\$0.9 million). An increase in administrative expenses (\$0.3 million), due largely to higher fringe benefit costs, also contributed.

Polymers

Polymers net sales for the first half of 2010 increased \$34.2 million, or 29 percent, from net sales for the first half of 2009. A 19 percent increase in sales volume and higher average selling prices accounted for \$23.1 million and \$11.7 million, respectively, of the increase in net sales. The effects of foreign currency translation reduced the year-to-year change in net sales by \$0.6 million. A year-to-year comparison of net sales by region is displayed below:

<i>(Dollars in thousands)</i>	For the Six Months Ended			Percent Change
	June 30, 2010	June 30, 2009	Increase	
North America	\$ 103,584	\$ 83,522	\$ 20,062	+24
Europe	42,243	31,597	10,646	+34
Asia and Other	8,176	4,724	3,452	+73
Total Polymers Segment	\$ 154,003	\$ 119,843	\$ 34,160	+29

Net sales for North American operations grew 24 percent due to a 14 percent increase in sales volume and a nine percent increase in average selling prices, which accounted for \$11.4 million and \$8.7 million, respectively, of the increase in net sales. Sales volume for phthalic anhydride and polyols increased 16 percent and 12 percent, respectively, which reflected improved economic conditions in the industries to which the polymer segment sells. Higher raw material costs led to the increase in average selling prices.

Net sales for European operations increased 34 percent due to a 29 percent increase in sales volume and a five percent increase in average selling prices. The increases in sales volume and average selling price accounted for \$9.3 million and \$2.0 million, respectively, of the net sales growth. Improved demand for polyol used in rigid insulation foam led to the improvement in sales volume. The increase in average selling prices was primarily attributable to higher raw material costs. The effects of foreign currency translation reduced the year-to-year net sales change by \$0.7 million, which reflected the weakening of the European euro against the U.S. dollar. Asia and Other operations' net sales were up 73 percent between years due largely to increased sales volume for the China joint venture.

Polymer operating income for the first half of 2010 increased \$3.4 million, or 25 percent, from operating income for the same period of 2009. Gross profit increased \$4.0 million, or 18 percent, due primarily to higher unit margins for North American operations and sales volume increases for all regions. Operating expenses increased \$0.6 million, or seven percent, year over year. Below are year-to-year comparisons of gross profit by region and total segment operating expenses and operating income:

<i>(Dollars in thousands)</i>	For the Six Months Ended			Percent Change
	June 30, 2010	June 30, 2009	Increase (Decrease)	
Gross Profit				
North America	\$ 19,275	\$ 13,771	\$ 5,504	+40
Europe	6,208	8,050	(1,842)	-23
Asia and Other	698	347	351	+101
Total Polymers Segment	\$ 26,181	\$ 22,168	\$ 4,013	+18
Operating Expenses	9,017	8,432	585	+7
Operating Income	\$ 17,164	\$ 13,736	\$ 3,428	+25

Gross profit for North American operations increased 40 percent, which accounted for the polymer segment's overall improved profit. Higher quarter-over-quarter unit margins and sales volume led to the increase. Most of the improvement was attributable to the region's phthalic anhydride product line, which reported negative margins for the first half of 2009. The unfavorable 2009 margins resulted from high priced material in inventory that was accumulated near the end of 2008 (and carried over into 2009) prior to the significant recession-driven decline in commodity costs. For the entire region, year-over-year margins were also favorably affected by manufacturing costs that remained unchanged from the prior year despite a 14 percent increase in sales volume. As the economy has begun to recover from the recession, raw material costs have risen, placing downward pressure on margins especially for polyol products. The Company has increased selling prices to recover those costs.

Gross profit for European operations declined 23 percent despite the 29 percent increase in sales volume. The effects of rising raw material costs more than offset the impact of higher sales volume. Selling prices have been raised but not yet enough to recover the higher costs. Price increases will continue to be made as the market allows.

The increase in gross profit for Asia and Other operations reflected higher sales volume.

The \$0.6 million increase in operating expenses was principally attributable to higher marketing expenses for North American operations (\$0.5 million). Acquisition related travel and high salary and bad debt expenses contributed to the North American marketing expense increase.

Specialty Products

Net sales for the first half of 2010 were \$1.3 million, or six percent, higher than net sales for the first half of 2009. Higher sales volumes and a more favorable mix of sales led to the improvement. Operating income was up \$2.4 million, or 42 percent, from year to year due to higher sales volumes, lower raw material costs and an improved sales mix resulting from increased sales of higher margin pharmaceutical products.

Corporate Expenses

Corporate expenses increased \$2.3 million, or 15 percent, to \$17.7 million for the first half of 2010 from \$15.4 million for the first half of 2009. Deferred compensation expense accounted for \$1.1 million of the increase, as the Company recorded \$0.9 million of deferred compensation expense for the first half of 2010 compared to \$0.1 million of income for the same period of 2009. The increase in the value of Company common stock, to which a large portion of the deferred compensation obligation is tied, accounted for the deferred compensation expense. The value of Company common stock was \$68.43 per share at June 30, 2010, compared to \$64.81 per share at December 31, 2009, an increase of \$3.62 per share. For the first half of 2009, the Company's common stock price declined \$2.83 per share from \$46.99 per share at December 31, 2008, to \$44.16 per share at June 30, 2009. A first half 2010 decline in the value of the mutual fund assets held to partially fund the deferred compensation obligation versus an increase in the mutual fund values for the first half of 2009 led to deferred compensation income that partially offset the effect of the increase in the Company's common stock price. A \$0.4 million increase in salary expense also contributed to the year-over-year corporate expense increase. The remainder of the corporate expense increase resulted primarily from acquisition related travel and consulting expenses.

LIQUIDITY AND CAPITAL RESOURCES

For the first six months of 2010, cash flow from operating activities of \$13.0 million plus debt sources of \$41.0 million were used to fund investing cash outflows of \$28.9 million and non-debt financing outflows of \$5.0 million. As a result, cash increased by \$19.3 million since last year-end, including \$0.8 million of negative foreign exchange impact. Net income for the current year period was up by \$3.0 million compared to the same period in 2009. However, cash flow from operating activities for the first half of 2010 was down by \$73.0 million from a source of \$86.0 million for the comparable period in 2009 mainly due to higher current year working capital requirements.

For the first six months of 2010, working capital was a use of \$48.6 million versus a source of \$24.4 million for the same period in 2009. For the current year period, accounts receivable were a cash use of \$61.7 million compared to a cash source of \$20.9 million for the first half of 2009. Inventories were a cash use of \$13.7 million for the first six months of 2010 versus a cash source of \$27.2 million for the comparable period in 2009. Accounts payable and accrued liabilities were a source of \$27.8 million for the current year period compared to a use of \$23.1 million for the comparable period last year.

The working capital increase during 2010 has been driven by higher sales volumes versus the fourth quarter of 2009 as well as by increased raw material costs and selling prices to customers during 2010. During 2009, in contrast, the Company had experienced lower raw material costs and lower sales versus the prior year fourth quarter, resulting in lower accounts receivable and lower inventories. The Company's raw material costs are heavily influenced by the costs of crude oil-derived commodity chemicals, which are used by the Company as raw materials. Raw materials 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 accounts receivable via selling prices, both of which have increased during the first six months of 2010. The Company

has not experienced a significant change in the payment timing of its receivables and 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 the first half of 2010 were a net use of \$28.9 million versus \$12.0 million for the comparable period in 2009. For the current year period, capital expenditures have totaled \$28.0 million, an increase of \$4.6 million over \$23.4 million for the first half of 2009. During 2010, the Company liquidated \$0.7 million of investments for participant payouts versus \$4.4 million in 2009. Also during 2009, the Company recovered \$8.5 million of restricted cash relating to a 2008 Internal Revenue like-kind exchange, a singular cash inflow accountable for most of the period-to-period difference in net investing cash flows. For 2010, the Company estimates that full-year capital expenditures will be in a range of \$75 million to \$80 million, including capacity expansions in Germany and Brazil.

The Company purchases treasury shares in the open market from time to time 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. For the first six months of 2010, the Company purchased 72,845 common shares for the treasury in the open market at a total cost of \$3.8 million. As of June 30, 2010, there were 305,099 shares remaining under the current share repurchase authorization.

As of June 30, 2010, the Company's cash and cash equivalents totaled \$117.8 million, including \$69.2 million in two separate U.S. money market funds, each of which was rated AAA by Standard and Poor's and Aaa by Moody's. Cash in U.S. demand deposit accounts totaled \$21.6 million and cash of the Company's non-U.S. subsidiaries held outside the U.S. totaled \$27.0 million as of June 30, 2010.

Consolidated debt increased by \$45.6 million during the first six months of 2010, from \$104.1 million to \$149.7 million, mainly due to a new \$40.0 million private placement loan completed in June 2010. Since last year end, net debt, which is total debt minus cash, increased by \$26.3 million, from \$5.6 million to \$31.9 million, reflecting a cash increase of \$19.3 million. At June 30, 2010, the ratio of total debt to total debt plus shareholders' equity was 32.1 percent, compared to 26.4 percent as of December 31, 2009. The ratio of net debt to net debt plus shareholders' equity was 9.2 percent at June 30, 2010, compared to 1.9 percent at December 31, 2009.

As of June 30, 2010, the Company's debt included \$113.9 million of unsecured private placement loans with maturities extending from 2010 through 2022. 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 \$27.0 million term loan with its U.S. banks, which has remaining maturities from 2011 through 2013.

On June 1, 2010, the Company completed a new \$40.0 million private placement loan with three insurance companies, with loan proceeds to be used for capital expenditures and other corporate purposes. This new loan bears fixed interest at 5.88 percent per annum payable semi-annually with equal annual principal repayments from 2016 through final maturity in 2022. Terms and conditions of this agreement are substantially the same as those in the agreement covering the Company's 5.69 percent notes issued in 2005.

The Company currently has \$58.3 million of credit available under its committed \$60.0 million U.S. revolving credit agreement, which will require renewal on or before April 20, 2011. The Company is in discussion with its U.S. banks and expects to replace this agreement during the third quarter of 2010 with a new, committed \$60 million revolving agreement. The new agreement is expected to have current market pricing with other terms and conditions similar to those in the present agreement. 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 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 June 30, 2010, the Company's European subsidiaries had short-term bank debt of \$3.6 million with available borrowing capacity of approximately \$23.3 million. As of that date, Company's Latin American subsidiaries had no debt with \$5.9 million of available borrowing capacity. The Company's 80 percent owned China joint venture had \$0.4 million of short-term bank debt with \$7.5 million in available borrowing capacity.

Included in the Company's debt at June 30, 2010, was a \$4.8 million obligation related to a build-to-suit lease agreement for the construction of a warehouse at the Company's Millsdale (Joliet), Illinois, manufacturing site. The agreement was entered into in January 2010 and completion of the warehouse is scheduled for the fourth quarter of 2010.

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.

The Company was in compliance with all of its loan agreements as of June 30, 2010. Based on current projections, the Company believes it will be in compliance with its loan agreements throughout 2010.

ENVIRONMENTAL AND LEGAL MATTERS

The Company is subject to extensive federal, state and local environmental laws and regulations. Although the Company's environmental policies and practices are designed to ensure compliance with these laws and regulations, future developments and increasingly stringent environmental regulation could require the Company to make additional unforeseen environmental expenditures. The Company will continue to invest in the equipment and facilities necessary to comply with existing and future regulations. During the first six months of 2010, the Company's expenditures for capital projects related to the environment were \$0.4 million. These projects are capitalized and depreciated 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 the Company's manufacturing locations were approximately \$7.8 million and \$7.4 million for the six months ended June 30, 2010 and 2009, respectively. 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. It is the Company's accounting policy to record 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 the range 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. 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 \$7.2 million to \$31.1 million at June 30, 2010, compared to \$7.8 million to \$31.9 million at December 31, 2009. At June 30, 2010, 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 \$16.3 million, compared to \$17.1 million at December 31, 2009. During the first six months of 2010 and 2009, cash outlays related to legal and environmental matters approximated \$1.6 million.

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 financial position, cash flows and 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 and results of operations for those periods could be material. However, based upon the Company's present belief as to its relative involvement at these sites, other viable entities' responsibilities for cleanup and the extended period over which any costs would be incurred, the Company believes that these matters will not have a material effect on the Company's financial position. Certain of these matters are discussed in Item 1, Part 2, Legal Proceedings, in this report and in other filings of the Company with the Securities and Exchange Commission, which are available upon request from the Company. See also Note 7 to the condensed consolidated financial statements for a summary of the environmental proceedings related to certain environmental sites.

ACQUISITIONS

The following transactions were entered into subsequent to the June 30, 2010, reporting period of the financial statements included in this Form 10-Q:

On July 2, 2010, the Company purchased the manufacturing assets of Peter Cremer GmbH's 100,000 ton per year methyl esters plant located on Jurong Island in Singapore. The Company plans to install methyl esters fractionation capability on the site. Methyl esters are a core building block of the Company's surfactants segment, and the acquisition of the Jurong Island manufacturing assets provides the Company an opportunity to reach its global customer base with methyl esters and value added derivatives made from tropical oils available in the region. The Company plans for the site to begin methyl esters production by the end of 2011. The purchase price of the manufacturing assets was \$10.4 million, which the Company paid from available cash.

On July 15, 2010, the Company's Stepan Europe subsidiary acquired all the shares of Alfa Systems Sp, z o.o. (Alfa Systems). The purchase included a plant in Brzeg Dolny, Poland, which specializes in the manufacture of aromatic polyester polyol from recycled polyethylene terephthalate. Polyester polyols are the critical component of the Company's polymers segment. The acquisition of Alfa Systems provides the Company manufacturing capability in Eastern Europe and the ability to economically and effectively serve customers in Central and Eastern Europe. The purchase price of the acquisition was approximately 9.1 million (\$11.6 million), potentially reduced by 2.5 million for environmental remediation costs assumed by the Company and other possible claims that were unknown at the time of acquisition. The acquisition was financed using local (France) bank debt.

On July 19, 2010, the Company purchased controlling interest of the Stepan Philippines Inc. (SPI) joint venture, raising the Company's ownership interest in the venture from 50 percent to 88.8 percent. In July, the Company paid \$3.7 million of cash paid to purchase the interests of one owner, transferred \$2.0 million of cash to SPI as an additional capital investment and capitalized a \$3.9 million liability originally due the Company pursuant to a royalty agreement between the Company and SPI.

The Company does not believe the foregoing acquisitions will have a significant near-term effect on earnings, but will support the Company's longer term global growth strategy.

OUTLOOK

The Company's net income for the first half of 2010 was up nine percent over a strong 2009 first half. The decline in second quarter results was due to pressure on margins in Europe combined with higher expenses to support growth initiatives through acquisitions and increased research within the Company's innovation portfolio. Price increases were implemented in the third quarter in an attempt to recover recent raw material cost increases.

Leveraging a strong balance sheet, the Company has made recent investments in Singapore, Poland and the Philippines to deliver long term growth for the Company. The Company's strong first half volume gains were generated by improved market demand, market share gains and greater penetration of new end use markets. The Company expects these opportunities for growth will continue for the balance of this year and into 2011.

CRITICAL ACCOUNTING POLICIES

There have been no changes to the critical accounting policies disclosed in the Company's 2009 Annual Report on Form 10-K.

OTHER

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

Item 3 Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes in the Company's market risks since December 31, 2009.

Item 4 Controls and Procedures

a. Evaluation of Disclosure Controls and Procedures

Based on their evaluation of our disclosure controls and procedures as of the end of the most recent fiscal quarter covered by this Form 10-Q, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934) were effective as of June 30, 2010.

b. Changes in Internal Control Over Financial Reporting

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

Part II OTHER INFORMATION

Item 1 Legal Proceedings

Maywood, New Jersey Site

The Company's 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 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 February 2010 and June 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.

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.

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. USEPA issued an Administrative Order for Remedial Design and Remedial Action to some of the PRPs in June 2010, which requires the PRPs to implement the remedy USEPA selected in the Record of Decision. Discussions among the PRPs concerning allocation and compliance with the orders are continuing.

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 first quarter of 2010 (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.

Other Matters

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.

In addition, in May 2010, the Company entered into a Consent Agreement and Final Order with USEPA with respect to alleged violations of the Federal Insecticide, Fungicide and Rodenticide Act (FIFRA). Under the Consent Agreement and Final Order, the Company paid \$272,800 to USEPA.

Item 1A Risk Factors

There have been no material changes from the risk factors disclosed in the Company's 2009 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Below is a summary by month of share purchases by the Company during the second quarter of 2010:

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
April	1,369 ^(a)	\$ 72.99		
May				
June				

(a) Includes 1,369 shares tendered in lieu of cash for stock option exercises. The shares tendered were held by the individual exercising the options for more than six months.

Item 3 Defaults Upon Senior Securities

None

Item 4 (Removed and Reserved)

None

Item 5 Other Information

None

Item 6 Exhibits

Certification of President and Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a)/15d-14(a)

Certification of Vice President and Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a)/15d-14(a)

Certification pursuant to 18 U.S.C. Section 1350

SIGNATURES

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

Date: July 30, 2010

STEPAN COMPANY

/s/ J. E. HURLBUTT
J. E. Hurlbutt
Vice President and Chief Financial Officer