

STEPAN CO  
Form 10-Q  
May 07, 2012

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(MARK ONE)

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

**FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2012**

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

**FOR THE TRANSITION PERIOD FROM TO**

**1-4462**

**Commission File Number**

**STEPAN COMPANY**

(Exact name of registrant as specified in its charter)

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**Delaware** **36-1823834**  
(State or other jurisdiction of **(I.R.S. Employer**  
**incorporation or organization)** **Identification Number)**  
**Edens and Winnetka Road, Northfield, Illinois 60093**  
(Address of principal executive offices)  
**Registrant's telephone number (847) 446-7500**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

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

Class	Outstanding at April 30, 2012
Common Stock, \$1 par value	10,342,824 Shares

**Part I FINANCIAL INFORMATION****Item 1 Financial Statements**

## STEPAN COMPANY

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Unaudited

<i>(In thousands, except per share amounts)</i>	Three Months Ended March 31	
	2012	2011
<b>Net Sales</b>	\$ 465,269	\$ 422,598
Cost of Sales	388,485	360,812
<b>Gross Profit</b>	<b>76,784</b>	<b>61,786</b>
Operating Expenses:		
Selling	13,651	10,830
Administrative	16,952	10,874
Research, development and technical services	10,781	10,231
	41,384	31,935
<b>Operating Income</b>	<b>35,400</b>	<b>29,851</b>
Other Income (Expense):		
Interest, net	(2,604)	(2,063)
Loss from equity in joint ventures	(1,141)	(965)
Other, net (Note 12)	1,065	312
	(2,680)	(2,716)
<b>Income Before Provision for Income Taxes</b>	<b>32,720</b>	<b>27,135</b>
Provision for Income Taxes	10,356	8,319
<b>Net Income</b>	<b>22,364</b>	<b>18,816</b>
Net Income Attributable to Noncontrolling Interests (Note 2)	(62)	(55)
<b>Net Income Attributable to Stepan Company</b>	<b>\$ 22,302</b>	<b>\$ 18,761</b>
Net Income Per Common Share Attributable to Stepan Company (Note 9):		
Basic	\$ 2.11	\$ 1.80
Diluted	\$ 1.97	\$ 1.68
Shares Used to Compute Net Income Per Common Share Attributable to Stepan Company (Note 9):		
Basic	10,511	10,323
Diluted	11,321	11,169
Dividends Declared Per Common Share	\$ 0.28	\$ 0.26

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

## STEPAN COMPANY

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Unaudited

<i>(In thousands)</i>	Three Months Ended	
	2012	2011
Net income	\$ 22,364	\$ 18,816
Other comprehensive income:		
Foreign currency translation adjustments	8,534	6,117
Pension liability adjustment, net of tax	582	523
Derivative instrument activity, net of tax	107	74
Other comprehensive income	9,223	6,714
Comprehensive income	31,587	25,530
Less: Comprehensive income attributable to noncontrolling interests	(137)	(69)
Comprehensive income attributable to Stepan Company	\$ 31,450	\$ 25,461

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## STEPAN COMPANY

## CONDENSED CONSOLIDATED BALANCE SHEETS

Unaudited

<i>(In thousands)</i>	March 31, 2012	December 31, 2011
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 64,646	\$ 84,099
Receivables, net	288,143	260,784
Inventories (Note 6)	135,783	111,175
Deferred income taxes	9,345	8,769
Other current assets	16,798	14,915
Total current assets	514,715	479,742
<b>Property, Plant and Equipment:</b>		
Cost	1,142,835	1,119,897
Less: accumulated depreciation	751,131	735,914
Property, plant and equipment, net	391,704	383,983
Goodwill, net	7,140	7,000
Other intangible assets, net	10,632	11,181
Long-term investments (Note 3)	13,863	12,464
Other non-current assets	6,715	6,748
Total assets	\$ 944,769	\$ 901,118
<b>Liabilities and Equity</b>		
<b>Current Liabilities:</b>		
Current maturities of long-term debt (Note 11)	\$ 37,150	\$ 34,487
Accounts payable	151,261	137,764
Accrued liabilities	59,203	60,975
Total current liabilities	247,614	233,226
Deferred income taxes	8,745	8,644
Long-term debt, less current maturities (Note 11)	163,840	164,967
Other non-current liabilities	89,888	88,816
<b>Commitments and Contingencies (Note 7)</b>		
<b>Equity:</b>		
5-1/2% convertible preferred stock, cumulative, voting, without par value; authorized 2,000,000 shares; issued and outstanding 518,293 shares in 2012 and in 2011	12,957	12,957
Common stock, \$1 par value; authorized 30,000,000 shares; Issued 11,817,287 shares in 2012 and 11,709,312 shares in 2011	11,817	11,709
Additional paid-in capital	99,814	94,932
Accumulated other comprehensive loss	(32,140)	(41,485)
Retained earnings	385,523	366,293
Less: Common treasury stock, at cost, 1,482,657 shares in 2012 and 1,462,980 shares in 2011	(44,932)	(43,195)

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Total Stepan Company stockholders' equity	433,039	401,211
Noncontrolling interests (Note 2)	1,643	4,254
Total equity	434,682	405,465
Total liabilities and equity	\$ 944,769	\$ 901,118

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

## STEPAN COMPANY

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

<i>(In thousands)</i>	Three Months Ended March 31	
	2012	2011
<b>Cash Flows From Operating Activities</b>		
Net income	\$ 22,364	\$ 18,816
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,226	11,094
Deferred compensation	3,499	(380)
Realized and unrealized gain on long-term investments	(1,446)	(473)
Stock-based compensation	628	849
Deferred income taxes	(814)	1,654
Other non-cash items	916	(25)
Changes in assets and liabilities:		
Receivables, net	(23,346)	(63,910)
Inventories	(23,222)	(21,027)
Other current assets	(1,691)	(983)
Accounts payable and accrued liabilities	18,054	31,044
Pension liabilities	(693)	(408)
Environmental and legal liabilities	376	(197)
Deferred revenues	(292)	(463)
Excess tax benefit from stock options and awards	(1,878)	(1,036)
<b>Net Cash Provided By (Used In) Operating Activities</b>	<b>4,681</b>	<b>(25,445)</b>
<b>Cash Flows From Investing Activities</b>		
Expenditures for property, plant and equipment	(21,322)	(22,478)
Sale of mutual funds	535	1,487
Other, net	(1,582)	(1,704)
<b>Net Cash Used In Investing Activities</b>	<b>(22,369)</b>	<b>(22,695)</b>
<b>Cash Flows From Financing Activities</b>		
Revolving debt and bank overdrafts, net	1,974	4,004
Build-to-suit obligation buyout		(12,206)
Other debt repayments	(1,458)	(385)
Dividends paid	(3,072)	(2,819)
Company stock repurchased	(500)	
Stock option exercises	1,896	624
Excess tax benefit from stock options and awards	1,878	1,036
Payment to noncontrolling interest (Note 13)	(2,000)	
Other, net	(1,258)	(1,293)
<b>Net Cash Used in Financing Activities</b>	<b>(2,540)</b>	<b>(11,039)</b>
Effect of Exchange Rate Changes on Cash	775	724