

STEPAN CO
Form 10-Q
October 30, 2013

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 SEPTEMBER 30, 2013

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

Commission File Number 1-4462

STEPAN COMPANY
(Exact name of registrant as specified in its charter)

Delaware **36-1823834**
(State or other jurisdiction of **(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 October 24, 2013
Common Stock, \$1 par value	22,318,652 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		Nine Months Ended	
	September 30		September 30	
	2013	2012	2013	2012
Net Sales	\$ 475,466	\$ 440,978	\$ 1,406,457	\$ 1,376,478
Cost of Sales	401,125	369,725	1,185,709	1,155,045
Gross Profit	74,341	71,253	220,748	221,433
Operating Expenses:				
Selling	12,895	12,128	41,063	38,764
Administrative	18,127	14,389	49,008	45,427
Research, development and technical services	12,234	10,845	35,429	33,130
	43,256	37,362	125,500	117,321
Operating Income	31,085	33,891	95,248	104,112
Other Income (Expense):				
Interest, net	(2,987)	(2,684)	(7,495)	(7,374)
Loss from equity in joint ventures	(1,325)	(1,376)	(4,061)	(3,817)
Other, net (Note 14)	1,074	404	1,628	1,552
	(3,238)	(3,656)	(9,928)	(9,639)
Income Before Provision for Income Taxes	27,847	30,235	85,320	94,473
Provision for Income Taxes	7,698	9,916	23,520	30,279
Net Income	20,149	20,319	\$ 61,800	\$ 64,194
Net (Income) Loss Attributable to				
Noncontrolling Interests (Note 3)	253	(89)	378	(237)
Net Income Attributable to Stepan Company	\$ 20,402	\$ 20,230	\$ 62,178	\$ 63,957
Net Income Per Common Share Attributable to				
Stepan Company (Note 10):				
Basic	\$ 0.90	\$ 0.95	\$ 2.75	\$ 3.01

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Diluted	\$ 0.89	\$ 0.89	\$ 2.71	\$ 2.82
Shares Used to Compute Net Income Per Common Share Attributable to Stepan Company (Note 10):				
Basic	22,700	21,162	22,576	21,106
Diluted	22,936	22,736	22,914	22,708
Dividends Declared Per Common Share	\$ 0.16	\$ 0.14	\$ 0.48	\$ 0.42

All share and per share data reflect the effects of the two-for-one common stock split that was effective December 14, 2012.

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 September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Net income	\$ 20,149	\$ 20,319	\$ 61,800	\$ 64,194
Other comprehensive income (loss):				
Foreign currency translation adjustments (Note 11)	5,752	5,513	(6,806)	3,493
Pension liability adjustment, net of tax (Note 11)	810	512	2,538	1,676
Derivative instrument activity, net of tax (Note 11)	3	34	(18)	98
Other comprehensive income (loss)	6,565	6,059	(4,286)	5,267
Comprehensive income	26,714	26,378	57,514	69,461
Comprehensive (income) loss attributable to noncontrolling interests (Note 3)	248	(97)	344	(299)
Comprehensive income attributable to Stepan Company	\$ 26,962	\$ 26,281	\$ 57,858	\$ 69,162

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

STEPAN COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS

Unaudited

<i>(In thousands)</i>	September 30, 2013	December 31, 2012
Assets		
Current Assets:		
Cash and cash equivalents	\$ 103,088	\$ 76,875
Receivables, net	293,142	255,858
Inventories (Note 7)	178,402	162,013
Deferred income taxes	9,797	9,876
Other current assets	24,471	18,456
Total current assets	608,900	523,078
Property, Plant and Equipment:		
Cost (Note 2)	1,293,619	1,200,355
Less: accumulated depreciation	812,695	778,333
Property, plant and equipment, net	480,924	422,022
Goodwill, net (Note 2)	11,737	7,199
Other intangible assets, net (Note 2)	24,433	8,778
Long-term investments (Note 4)	16,917	14,093
Other non-current assets	10,493	10,308
Total assets	\$ 1,153,404	\$ 985,478
Liabilities and Equity		
Current Liabilities:		
Current maturities of long-term debt (Note 13)	\$ 35,230	\$ 32,838
Accounts payable	156,126	141,668
Accrued liabilities	74,542	72,661
Total current liabilities	265,898	247,167
Deferred income taxes	13,364	9,200
Long-term debt, less current maturities (Note 13)	241,575	149,564
Other non-current liabilities	99,741	98,667
Commitments and Contingencies (Note 8)		
Equity:		
		1,548

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5-1/2% convertible preferred stock, cumulative, voting, without par value; authorized 2,000,000 shares; issued and outstanding 0 shares in 2013 and 61,935 shares in 2012

(Note 15)

Common stock, \$1 par value; authorized 60,000,000 shares; Issued 25,544,579 shares in 2013 and 25,141,610 shares in 2012

	25,545	25,142
Additional paid-in capital	134,506	125,003
Accumulated other comprehensive loss (Note 11)	(42,570)	(38,250)
Retained earnings	471,972	420,472
Less: Common treasury stock, at cost, 3,229,727 shares in 2013 and 3,175,638 shares in 2012	(58,178)	(54,930)
Total Stepan Company stockholders equity	531,275	478,985
Noncontrolling interests (Note 3)	1,551	1,895
Total equity	532,826	480,880
Total liabilities and equity	\$ 1,153,404	\$ 985,478

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>	Nine Months Ended September 30	
	2013	2012
Cash Flows From Operating Activities		
Net income	\$ 61,800	\$ 64,194
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	41,450	37,942
Deferred compensation	3,492	6,262
Realized and unrealized gain on long-term investments	(2,186)	(1,717)
Stock-based compensation	1,420	749
Deferred income taxes	2,793	3,389
Other non-cash items	5,871	4,037
Changes in assets and liabilities:		
Receivables, net	(41,145)	(5,531)
Inventories	(9,631)	(44,142)
Other current assets	(5,867)	(2,186)
Accounts payable and accrued liabilities	26,585	24,708
Pension liabilities	1,358	(4,798)
Environmental and legal liabilities	(651)	(285)
Deferred revenues	(305)	(662)
Excess tax benefit from stock options and awards	(3,278)	(3,925)
Net Cash Provided By Operating Activities	81,706	78,035
Cash Flows From Investing Activities		
Expenditures for property, plant and equipment	(67,077)	(60,855)
Business acquisition (Note 2)	(68,212)	
Sale of mutual funds	571	537
Other, net	(5,142)	(2,875)
Net Cash Used In Investing Activities	(139,860)	(63,193)
Cash Flows From Financing Activities		
Revolving debt and bank overdrafts, net	6,412	(2,693)
Other debt borrowings	100,000	
Other debt repayments	(12,567)	(8,581)
Dividends paid	(10,678)	(9,234)
Company stock repurchased	(2,275)	(1,000)
Stock option exercises	3,715	3,430
Payment to noncontrolling interest (Note 17)		(2,000)
Excess tax benefit from stock options and awards	3,278	3,925
Other, net	(1,606)	(3,708)

Net Cash Provided By (Used In) Financing Activities	86,279	(19,861)
Effect of Exchange Rate Changes on Cash	(1,912)	575
Net Increase (Decrease) in Cash and Cash Equivalents	26,213	(4,444)
Cash and Cash Equivalents at Beginning of Period	76,875	84,099
Cash and Cash Equivalents at End of Period	\$ 103,088	\$ 79,655
Supplemental Cash Flow Information		
Cash payments of income taxes, net of refunds	\$ 18,151	\$ 20,638
Cash payments of interest	\$ 5,482	\$ 6,224

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

STEPAN COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2013