STEPAN CO
Form 10-K
February 27, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(MARK ONE)

(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

OR

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

Commission File Number 1-4462

STEPAN COMPANY

(Exact name of registrant as specified in its charter)

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

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

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

Title of Each Class	Name of Each Exchange on Which Registered

Common Stock, $1 par value	New York Stock Exchange Chicago Stock Exchange
5 1/2% Convertible Preferred Stock, no par value	New York Stock Exchange Chicago Stock Exchange

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities

Act Yes X No ____

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of

the Act Yes ____ No X

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes X 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 X 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 X

Aggregate market value at June 30, 2012, of voting and non-voting common stock held by nonaffiliates of the registrant: $812,371,804*

Number of shares outstanding of each of the registrant s classes of common stock as of January 31, 2013:

Class	**Outstanding at January 31, 2013**
Common Stock, $1 par value	21,965,972

Documents Incorporated by Reference

Part of Form 10-K	**Document Incorporated**
Part III, Items 10-14	Portions of the Proxy Statement for Annual Meeting of Stockholders to be held April 30, 2013.

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

STEPAN COMPANY

ANNUAL REPORT ON FORM 10-K

December 31, 2012

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PART I

Item 1. Business

Stepan Company, which was incorporated under the laws of the state of Delaware on February 19, 1959, and its subsidiaries (the Company) produce specialty and intermediate chemicals, which are sold to other manufacturers and then made into a variety of end products. The Company has three reportable segments: surfactants, polymers and specialty products.

Surfactants are chemical agents that affect the interaction between two surfaces; they can provide actions such as detergency (i.e., the ability of water to remove soil from another surface), wetting and foaming, dispersing, emulsification (aiding two dissimilar liquids to mix), demulsification, viscosity modifications and biocidal disinfectants. Surfactants are the basic cleaning agent in detergents for washing clothes, dishes, carpets, fine fabrics, floors and walls. Surfactants are also used for the same purpose in shampoos, body wash and conditioners, fabric softeners, toothpastes, cosmetics and other personal care products. Commercial and industrial applications include emulsifiers for agricultural products, emulsion polymers such as floor polishes and latex foams and coatings, wetting and foaming agents for wallboard manufacturing, surfactants for enhanced oil recovery and biodiesel.

Polymers, which include two primary product lines, polyols and phthalic anhydride, are used in multiple types of specialty polymers. Polyurethane polyols are used in the manufacture of rigid foam for thermal insulation in the construction industry. They are also a base for raw material for coatings, adhesives, sealants and elastomers. Phthalic anhydride is used in polyester resins, alkyd resins, and plasticizers for applications in construction materials and components of automotive, boating, and other consumer products and internally in the Company s polyols.

Specialty products are chemicals used in food, flavoring, nutritional supplement and pharmaceutical applications.

MARKETING AND COMPETITION

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

The Company does not sell directly to the retail market, but sells to a wide range of manufacturers in many industries and has many competitors. The principal methods of competition are product performance, price, technical assistance and adaptability to the specific needs of individual customers. These factors allow the Company to compete on a basis other than price alone, reducing the severity of competition as experienced in the sales of commodity chemicals having identical performance characteristics. The Company is one of the leading merchant producers of surfactants in the Americas. In the case of surfactants,

much of the Company s competition comes from several large global and regional producers and the internal divisions of larger customers. In the manufacture of polymers, the Company competes with the chemical divisions of several large companies, as well as with other small specialty chemical manufacturers. In specialty products, the Company competes with several large firms plus numerous small companies.

MAJOR CUSTOMER AND BACKLOG

The Company does not have any one customer whose business represented more than 10 percent of the Company s consolidated revenue 2012, 2011 or 2010. The Company has contract arrangements with certain customers, but volumes are generally contingent on purchaser requirements. Much of the Company s business is essentially on a spot delivery basis and does not involve a significant backlog.

ENERGY SOURCES

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

RAW MATERIALS

The most important raw materials used by the Company are petroleum or plant based. For 2013, the Company has contracts with suppliers that cover the majority of its forecasted requirements for major raw materials and is not substantially dependent upon any one supplier.

RESEARCH AND DEVELOPMENT

The Company maintains an active research and development program to assist in the discovery and commercialization of new knowledge with the intent that such efforts will be useful in developing a new product or in bringing about a significant improvement to an existing product or process. Total expenses for research and development during 2012, 2011 and 2010 were $28.0 million, $25.1 million, and $24.2 million, respectively. The remainder of research, development and technical service expenses reflected on the consolidated statements of income relates to technical services, which include routine product testing, analytical methods development and sales support service.

ENVIRONMENTAL COMPLIANCE

Compliance with applicable federal, state and local regulations regarding the discharge of materials into the environment, or otherwise relating to the protection of the environment, resulted in capital expenditures by the Company of approximately $5.3 million during 2012.

These expenditures represented approximately six percent of the Company s total 2012 capital expenditures. Capitalized environmental expenditures are depreciated and charged on a straight-line basis to pretax earnings over their estimated useful lives, which are typically 10 years. Recurring costs associated with the operation and maintenance of facilities for waste treatment and disposal and managing environmental compliance in ongoing operations at our manufacturing locations were approximately $18.3 million in 2012. Compliance with such regulations is not expected to have a material adverse effect on the Company s earnings and competitive position in the foreseeable future.

EMPLOYMENT

At December 31, 2012 and 2011, the Company employed 1,920 and 1,848 persons, respectively.

FOREIGN OPERATIONS AND REPORTING SEGMENTS

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

WEBSITE

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

Executive Officers of the Registrant

The Company s executive officers are elected annually by the Board of Directors at the first meeting following the Annual Meeting of Stockholders to serve through the next annual meeting of the Board and until their respective successors are duly elected and qualified.

The executive officers of the Company, their ages and certain other information as of February 27, 2013, are as follows:

Name	Age	Title	Year First Elected Officer
F. Quinn Stepan	75	Chairman	1967
F. Quinn Stepan, Jr.	52	President and Chief Executive Officer	1997
John V. Venegoni	54	Vice President and General Manager Surfactants	1999
Robert J. Wood	55	Vice President and General Manager Polymers	2001
James E. Hurlbutt	59	Vice President and Chief Financial Officer	2002
Frank Pacholec	57	Vice President, Research and Development and Corporate Sustainability Officer	2003
Gregory Servatius	53	Vice President, Human Resources	2006
H. Edward Wynn	52	Vice President, General Counsel and Secretary	2007
Scott C. Mason	54	Vice President, Supply Chain	2010

F. Quinn Stepan is an executive officer of the Company and Chairman of the Company s Board of Directors. He served the Company as Chairman and Chief Executive Officer from October 1984 through December 2005. He served as President from 1973 until February 1999.

F. Quinn Stepan, Jr., has served the Company as President and Chief Executive Officer since January 2006. He served the Company as President and Chief Operating Officer from 1999 through 2005. From January 1997 until February 1999 he served as Vice President and General Manager Surfactants. From May 1996 until January 1997 he served as Vice President Global Laundry and Cleaning Products. From May 1992 until May 1996 he served as Director Business Management.

John V. Venegoni has served the Company as Vice President and General Manager Surfactants since February 1999. From May 1996 until February 1999 he served as Director Global Personal Care. From May 1992 until May 1996 he served as Senior Business Manager Consumer Products.

Robert J. Wood has served the Company as Vice President and General Manager Polymers since January 2001. From March 1996 until January 2001, he served as Director Polyols. From April 1988 until March 1996, he served as Business Manager Polyols.

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

Company as Vice President Finance. From February 2002 until February 2005, he served the Company as Vice President and Controller. From August 1996 until February 2002, he served as Controller International and Tax Accounting.

Frank Pacholec has served the Company as Vice President, Research and Development since April 2003. In May 2010 he was also appointed as the Company s Corporate Sustainability Officer.

Gregory Servatius has served the Company as Vice President, Human Resources since February 2006. From April 2003 until January 2006, he served as Vice President, Surfactant Sales. From October 2001 until April 2003, he served as Vice President Functional Products. From 1998 to 2001, he served as the Managing Director of Stepan s European operation.

H. Edward Wynn has served the Company as Vice President, General Counsel and Secretary since January 9, 2007. From August 2005 until December 2006, he served as Chief Administrative Officer and General Counsel of Heritage Development Partners, LLC.

Scott C. Mason has served the Company as Vice President, Supply Chain since March 10, 2010. From January 2006 until December 2009, he served as Senior Vice President Global Supply Chain and President, Alternative Channels of Nalco Company.

Item 1A. Risk Factors

The following discussion identifies the most significant factors that may adversely affect the Company s business, financial condition, results of operations and cash flows. These and other factors, many of which are beyond the Company s control, may cause future results of operations to differ materially from those currently expected or desired. The following information should be read in conjunction with Part II, Item 7, Management Discussion and Analysis and the consolidated financial statements and related notes included in this Form 10-K.

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

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

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

You are cautioned not to rely solely on such forward-looking statements, but instead are encouraged to utilize the entire mix of publicly available historical and forward-looking information, as well as other available information affecting the Company, the Company s services and the Company s industry, when evaluating the Company s forecasts and other forward-looking statements relating to the Company s operations and financial performance.

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

Natural disasters, such as fires, flooding, earthquakes and tornadoes, power loss, break-ins, work stoppages, acts of war, terrorism or other similar events, could severely damage the Company s systems and facilities or interrupt the Company s operations, potentially resulting in temporary or permanent loss of the Company s manufacturing capability. Some of the Company s products cannot currently be made, or made in the volume required, at more than one of the Company s locations. For some of these products, the Company has access to external market suppliers, but the Company cannot guarantee that these products will be available to it in amounts sufficient to meet its requirements or at a cost that is competitive with the Company s cost of manufacturing these products. While the Company maintains insurance coverage, there can be no assurance that it would be sufficient to cover any or all losses resulting from the occurrence of any of these events or that insurance

carriers would not deny coverage for these losses even if they are insured. There is also a risk, beyond the reasonable control of the Company, that an insurance carrier may not have the financial resources to cover an insurable loss. As a result, the occurrence of any of these events could have a material adverse effect on the Company s business, financial position, results of operations and cash flows.

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

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

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

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

The costs of raw materials, natural gas and electricity represent a substantial portion of the Company s operating costs. The principal raw materials used in the Company s products are petroleum-based or plant-based. Natural gas is used in the Company s manufacturing sites primarily to generate steam for its manufacturing processes. The prices of many of these raw materials have recently been very volatile. These fluctuations in prices may be affected by supply and demand factors, such as general economic conditions, manufacturers ability to meet demand, restrictions on the transport of raw material (some of which may be viewed as hazardous), currency exchange rates, political instability and terrorist attacks, all of which are beyond the Company s control. The Company may not be able to pass increased raw material and natural gas prices on to customers through increases in product prices as a result of arrangements the Company has with certain customers and competitive pressures in the market. If the Company is unable to minimize the effects of increased raw material and energy costs or pass such increased costs on to customers, its business, financial position, results of operations and cash flows may be materially and adversely affected.

The Company relies heavily on third party transportation to deliver raw materials to Company manufacturing facilities and ship products to Company customers. Disruptions in transportation or significant changes in transportation costs could affect the Company s operating results.

The Company relies heavily on railroads, barges and other over-the-road shipping methods to transport raw materials to its manufacturing facilities and to ship finished product to customers. Transport operations are exposed to various risks, such as extreme weather conditions, work stoppages and operating hazards, as well as interstate transportation regulations. If the Company is unable to ship finished product or unable to obtain raw materials due to transportation problems, or if there are significant changes in the cost of these services, the Company may not be able to arrange efficient alternatives and timely means to obtain raw materials or ship product, which could result in an adverse effect on Company revenues, costs and operating results.

Customer product reformulations can reduce the demand for the Company s products.

The Company s products are used in a broad range of customer product applications. Customer product reformulations may lead to reduced consumption of Company-produced products or make some Company products unnecessary. It is imperative that the Company develops new products to replace the sales of products that mature and decline in use. The Company s business, results of operations and cash flows could be materially and adversely affected if the Company is unable to manage successfully the maturation of existing products and the introduction of new products.

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

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

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

The Company has substantial operations outside the U.S. In the year ended December 31, 2012, the Company s sales outside of the U.S. constituted approximately 40 percent of the Company s net sales. In addition to the risks described in this Annual Report on Form 10-K that are common to both the Company s U.S. and non-U.S. operations, the Company faces, and will continue to face, risks related to the Company s foreign operations such as:

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

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

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

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

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

The Company s operations are regulated under a number of federal, state, local and foreign environmental, health and safety laws and regulations that govern, among other things, the discharge of hazardous materials into the air, soil and water as well as the use, handling,

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

The Company is also subject to numerous federal, state, local and foreign laws that regulate the manufacture, storage, distribution and labeling of many of the Company s products, including some of the Company s disinfecting, sanitizing and antimicrobial products. Some of these laws require the Company to have operating permits for the Company s production facilities, warehouse facilities and operations. Various federal, state, local and foreign laws and regulations also require the Company to register the Company s products and to comply with specified requirements with respect to those products. If the Company fails to comply with any of these laws and regulations, it may be liable for damages and the costs of remedial actions in excess of the Company s recorded liabilities, and may also be subject to fines, injunctions or criminal sanctions or to revocation, non-renewal or modification of the Company s operating permits and revocation of the Company s product registrations. Any such revocation, modification or non-renewal may require the Company to cease or limit the manufacture and sale of its products at one or more of the Company s facilities, which may limit or prevent the Company s ability to meet product demand or build new facilities and may have a material adverse effect on the Company s business, financial position, results of operations and cash flows. Any such revocation, non-renewal or modification may also result in an event of default under the indenture for the Company s notes or under the Company s credit facilities, which, if not cured or waived, may result in the acceleration of all the Company s indebtedness.

In addition to the costs of complying with environmental, health and safety requirements, the Company has incurred and may incur in the future costs defending against environmental litigation brought by government agencies and private parties. The Company may be a defendant in lawsuits brought by parties in the future alleging environmental damage, personal injury or property damage. A significant judgment against the Company

could harm its business, financial position, results of operations and cash flows. Although the Company has insurance that may cover some of these potential losses, there is always uncertainty as to whether such insurance may be available to the Company based on case-specific factors and the specific provisions of the Company s insurance policies.

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

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

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

The liabilities recorded by the Company for pending and threatened legal proceedings are estimates based on various assumptions. An adverse ruling or external forces, such as changes in the rate of inflation, the regulatory environment and other factors that could prove such assumptions to be no longer appropriate, may affect the accuracy of these estimates. Given the uncertainties inherent in such estimates, the Company s actual liabilities could differ significantly from the amounts the Company recorded to cover any existing and future contingencies. If the Company s actual liability is higher than estimated or any new legal proceeding is initiated, it could materially and adversely affect the Company s business, financial position, results of operations and cash flows.

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

The Company has a significant amount of indebtedness and may incur additional indebtedness in the future. As of December 31, 2012, the Company had $182.4 million of debt

on its balance sheet. U.S. debt included $152.1 million in unsecured promissory notes with maturities extending from 2013 until 2023. In addition, to provide liquidity, the Company has a $125.0 million revolving credit facility.

The Company s foreign subsidiaries also maintain bank term loans and short-term bank lines of credit in their respective countries to meet working capital requirements as well as to fund capital expenditure programs and acquisitions. As of December 31, 2012, the Company s foreign subsidiaries aggregate outstanding debt totaled $30.3 million.

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

- require the Company to dedicate a substantial portion of cash flow from operations to pay principal and interest on the Company s debt, which would reduce funds available to fund future working capital, capital expenditures and other general operating requirements;

- limit the Company s ability to borrow funds that may be needed to operate and expand its business;

- limit the Company s flexibility in planning for or reacting to changes in the Company s business and the industries in which the Company operates;

- increase the Company s vulnerability to general adverse economic and industry conditions or a downturn in the Company s business; and

- place the Company at a competitive disadvantage compared to its competitors that have less debt.

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

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

Economic downturns adversely affect some users of the variety of end products that are manufactured using the Company s products and the industries in which end products are used. These users may reduce their volume of purchases of such end products during economic downturns, which would reduce demand for the Company s products. Additionally, uncertain conditions in the credit markets pose a risk to the overall economy that may impact

consumer and customer demand of some of the Company s products, as well as the Company s ability to manage normal commercial relationships with its customers, suppliers and creditors. Some of the Company s customers may not be able to meet the terms of sale and suppliers may not be able to fully perform their contractual obligations due to tighter credit markets or a general slowdown in economic activity.

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

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

The Company may be required to pay for losses or injuries purportedly caused by its products. The Company faces an inherent exposure to various types of claims including general liability, product liability, product recall, toxic tort and environmental (claims), among others, if its products, or the end products that are manufactured with the Company s products, result in property damage, injury or death. In addition, because the Company conducts business in multiple jurisdictions, the Company also faces an inherent exposure to other general claims based on its operations in those jurisdictions and the laws of those jurisdictions, including but not limited to claims arising from its relationship with employees, distributors, agents and customers, and other parties with whom it has a business relationship, directly or indirectly. Many of these claims may be made against the Company even if there is no evidence of a loss from that claim, and these claims may be either made by individual entities, or potentially a group of plaintiffs in a class action. Defending these claims could result in significant legal expenses relating to defense costs and/or damage awards and diversion of management s time and the Company s resources. Any claim brought against the Company, net of potential insurance recoveries, could materially and adversely affect the Company s financial position, results of operations and cash flows.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

The following are the Company s principal plants and other important physical properties. Unless otherwise noted, the listed properties are owned by the Company. Management believes that the facilities are suitable and adequate for the Company s current operations.

	Name of Facility	Location	Site Size	Product
1.	Millsdale	Millsdale (Joliet), Illinois	492 acres	Surfactants/Polymers
2.	Fieldsboro	Fieldsboro, New Jersey	45 acres	Surfactants
3.	Anaheim	Anaheim, California	8 acres	Surfactants
4.	Winder	Winder, Georgia	202 acres	Surfactants
5.	Maywood	Maywood, New Jersey	19 acres	Surfactants / Specialty Products
6.	Stepan France	Grenoble, France	20 acres	Surfactants
7.	Stepan Mexico	Matamoros, Mexico	13 acres	Surfactants
8.	Stepan Germany	Cologne, Germany	12 acres	Surfactants/Polymers
9.	Stepan UK	Stalybridge (Manchester), United Kingdom	11 acres	Surfactants
10.	Stepan Colombia	Manizales, Colombia	5 acres	Surfactants
11.	Stepan Canada	Longford Mills, Canada	70 acres (leased)	Surfactants
12.	Stepan China	Nanjing, China	4 acres (leased)	Polymers
13.	Stepan Brazil	Vespasiano, Minas Gerais, Brazil	27 acres (capital lease)	Surfactants/Polymers
14.	Stepan Philippines	Bauan, Batangas, Philippines	9 acres (leased)	Surfactants
15.	Stepan Poland	Brzeg Dolny, Poland	4 acres (perpetual use right)	Polymers
16.	Stepan Asia	Jurong Island, Singapore	8 acres (leased)	Surfactants
17.	Company Headquarters and Central Research Laboratories	Northfield, Illinois	8 acres	N/A
18.		Northbrook,	3.25 acres	N/A

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

Item 3. Legal Proceedings

There are a variety of legal proceedings pending or threatened against the Company that occur in the normal course of the Company s business, the majority of which relate to environmental matters. Some of these proceedings may result in fines, penalties, judgments or costs being assessed against the Company at some future time. The Company s operations are subject to extensive local, state and federal regulations, including the U.S. Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA) and the Superfund amendments of 1986 (Superfund). Over the years, the Company has received requests for information relative to or has been named by the government as a potentially responsible party at a number of sites where cleanup costs have been or may be incurred under CERCLA and similar state statutes. In addition, damages are being claimed against the Company in general liability actions for alleged personal injury or property damage in the case of some disposal and plant sites. The Company believes that it has made adequate provisions for the costs it may incur with respect to these sites. For most of these sites, the involvement of the Company is expected to be minimal. The most significant sites are described below:

Maywood, New Jersey Site

The Company s property in Maywood, New Jersey and property formerly owned by the Company adjacent to its current site and other nearby properties (Maywood site) were listed on the National Priorities List in September 1993 pursuant to the provisions of CERCLA because of certain alleged chemical contamination. Pursuant to an Administrative Order on Consent entered into between USEPA and the Company for property formerly owned by the Company, and the issuance of an order by USEPA to the Company for property currently owned by the Company, the Company has completed various Remedial Investigation Feasibility Studies (RI/FS) and is awaiting the issuance of a Record of Decision (ROD) from USEPA.

The Company believes its recorded liability for claims associated with remediation of chemical contamination at the Maywood site is adequate. 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. As such, the Company recorded no liability related to this settlement agreement.

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 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 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 2012, the PRPs approved certain changes to remediation cost estimates which were considered in the Company s determination of its range of estimated possible losses and liability balance. The changes in range of possible losses and liability balance were immaterial.

Remediation work is continuing at this site. Based on current information, the Company believes that its recorded liability for claims associated with the D Imperio site is adequate. 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 $2.1 million for the Company s portion of environmental response costs through the third quarter of 2012 (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.

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 its recorded liability related to this site is adequate. However, 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.

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.

Item 4. Mine Safety Disclosures

Not Applicable.

PART II

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

All share and per share data in Item 5 reflect the two-for-one common stock split that was effective on December 14, 2012.

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

Quarterly Stock Data

	Stock Price Range			
	2012		*2011*	
Quarter	**High**	***Low***	*High*	*Low*
First	**$ 46.00**	**$ 38.05**	$ 39.43	$ 34.31
Second	**$ 47.25**	**$ 41.35**	$ 37.61	$ 31.33
Third	**$ 50.43**	**$ 42.72**	$ 41.08	$ 32.70
Fourth	**$ 55.90**	**$ 44.89**	$ 41.83	$ 32.32
Year	**$ 55.90**	**$ 38.05**	$ 41.83	$ 31.33

The Board of Directors declared a two-for-one stock split on its common stock in the form of a 100 percent stock dividend, payable on December 14, 2012. The Company s preferred stock, which was convertible into 1.14175 shares of common stock, became convertible at a rate of 2.2835 shares of common stock after the split.

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

On February 11, 2009, the Company s Board of Directors authorized the Company to repurchase up to 1,000,000 shares of its outstanding common stock, or the equivalent in shares of the Company s preferred stock. During 2012, 46,040 shares of Company common stock were purchased in the open market, 176,114 shares of common stock were received in lieu of cash from employees exercising stock options and 29,158 shares of common stock were received to settle employees minimum statutory withholding taxes related to performance stock awards. The purchased and received shares were recorded as treasury stock in the Company s balance sheet. At December 31, 2012, 170,542 shares remained available for repurchase under the February 11, 2009, authorization. On February 19, 2013, the Board of Directors of Stepan Company authorized the Company to repurchase up to 1,000,000 shares of its outstanding common stock. This repurchase authorization replaced the February 11, 2009, authorization, and the remaining unutilized repurchase authorization of 170,542 shares was cancelled. The timing and amount of the repurchases are determined by the Company s management

based on its evaluation of market conditions and share price. Shares will be repurchased with cash in open market or private transactions in accordance with applicable securities and stock exchange rules.

(b) On January 31, 2013, there were 1,457 holders of record of common stock of the Company.

(c) Below is a summary by month of share purchases by the Company during the fourth quarter of 2012:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October	2,800	$ 45.01		
November	130,504 [(a)]	47.70		
December				

(a) Includes 110,000 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.

(d) See table below for quarterly dividend information.

Dividends Declared Per Common Share

Quarter	**2012**	2011
First	**$ 0.14**	$ 0.13
Second	**$ 0.14**	$ 0.13
Third	**$ 0.14**	$ 0.13
Fourth	**$ 0.16**	$ 0.14
Year	**$ 0.58**	$ 0.53

The Company has material debt agreements that restrict the payment of dividends. See the Liquidity and Financial Condition section of Part II, Item 7, Management s Discussion and Analysis, for a description of the restrictions. See also Note 6, Debt, of the consolidated financial statements (Item 8 of this Form 10-K) for the amount of retained earnings available for dividend distribution at December 31, 2012. In addition to the restrictions of the debt agreements, no dividends on Company common stock may be declared and paid unless all accumulated and unpaid preferred dividends have been paid (see Note 10, Stockholders Equity, of the consolidated financial statements). To date, there are no unpaid preferred dividends.

(e) Stock Performance Graph

The following stock performance graph compares the yearly change since December 31, 2007, in cumulative return on the common stock of the Company on a dividend reinvested basis to the Dow Jones Chemical Industry Index and the Russell 2000 Index. The Dow Jones Chemical Industry Index is a market-capitalization weighted grouping of 32 chemical companies, including major manufacturers of both basic and specialty products. The Company is not included in the Dow Jones Chemical Industry Index. The Russell 2000 Index is a market-capitalization weighted grouping of 2,000 small to medium sized companies in a broad range of industries. The Company has been included in the Russell 2000 Index since 1992. The graph assumes $100 was invested on December 31, 2007, and shows the cumulative total return as of each December 31 thereafter.

Item 6. Selected Financial Data

(In thousands, except per share data)

For the Year	***2012***	*2011*	*2010*	*2009*	*2008*
Net Sales	**$ 1,803,737**	$ 1,843,092	$ 1,431,122	$ 1,276,382	$ 1,600,130
Operating Income	**128,716**	118,456	107,897	104,888	70,680
Percent of Net Sales	**7.1%**	6.4%	7.5%	8.2%	4.4%
Income Before Provision for Income Taxes	**115,722**	104,894	101,479	97,131	54,878
Percent of Net Sales	**6.4%**	5.7%	7.1%	7.6%	3.4%
Provision for Income Taxes	**36,035**	32,292	35,888	34,028	17,615
Net Income Attributable to Stepan Company	**79,396**	71,976	65,427	63,049	37,172
Per Diluted Share [(a) (b)]	**3.71**	3.21	2.95	2.92	1.76
Percent of Net Sales	**4.4%**	3.9%	4.6%	4.9%	2.3%
Percent to Total Stepan Company Stockholders Equity[(c)]	**18.0%**	19.2%	20.5%	25.3%	17.9%
Cash Dividends Paid	**12,757**	11,513	10,570	9,557	8,863
Per Common Share [(a)]	**0.5800**	0.5300	0.4900	0.4500	0.4250
Depreciation and Amortization	**51,294**	47,099	40,351	37,171	36,928
Capital Expenditures	**83,159**	83,166	73,748	42,631	49,778
Weighted-average Common Shares Outstanding (Diluted) [(a)]	**22,730**	22,440	22,180	21,592	21,098
As of Year End					
Working Capital	**$275,911**	$246,516	$222,199	$186,297	$116,288
Current Ratio	**2.1**	2.1	2.1	2.1	1.5
Property, Plant and Equipment, net	**422,022**	383,983	353,585	248,618	238,166
Total Assets	**985,478**	901,118	811,431	634,203	611,897
Long-term Debt Obligations, Less Current Maturities	**149,564**	164,967	159,963	93,911	104,725
Total Stepan Company Stockholders Equity	**478,985**	401,211	349,491	289,285	208,144

(a) Reflects the two-for-one common stock split that was effective December 14, 2012.
(b) Based on weighted-average number of common shares outstanding during the year.
(c) Based on average equity.

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

Except for the historical statements contained in this report, the matters discussed in the following discussion and analysis include forward-looking statements that are subject to certain risks, uncertainties and assumptions. Such forward-looking statements are intended to be identified in this document by the words, anticipate, believe, estimate, expect, intend, may, objective, outlook, plan, project, possible, potential, should and similar results may vary materially.

Forward-looking statements speak only as of the date they are made, and the Company does not undertake any obligation to update them to reflect changes that occur after that date. Factors that could cause actual results to differ materially include the items described in Item 1A of this Annual Report on Form 10-K.

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 72 percent of consolidated net sales in 2012, 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), three Latin American sites (Mexico, Brazil and Colombia) and two Asian sites (Philippines and Singapore). The Company also holds a 50 percent ownership interest in a joint venture, TIORCO, LLC (TIORCO), that markets chemical solutions for increasing the production of crude oil and natural gas from existing fields (enhanced oil recovery). The joint venture is accounted for under the equity method, and its financial results are excluded from surfactant segment operating results. Profits on sales of the Company s surfactants to enhanced oil recovery customers are included in surfactants segment results.

Polymers Polymers, which accounted for 24 percent of consolidated net sales in 2012, include two primary product lines: polyols and phthalic anhydride. Polyols are used in the manufacture of rigid laminate insulation board and panels for thermal insulation in the construction industry and are also a base raw material for flexible foams and coatings, adhesives, sealants and elastomers (collectively CASE products). 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 addition, phthalic anhydride is used internally in the production of polyols. In the U.S., polymer product lines are manufactured at the Company s Millsdale, Illinois, site. In Europe, polyols are manufactured at the Company s subsidiaries in Germany and Poland. In Asia, polyols are produced at the Company s 80-percent owned joint venture in Nanjing, China.

Specialty Products   Specialty products, which accounted for 4 percent of consolidated net sales in 2012, include flavors, emulsifiers and solubilizers used in the food and pharmaceutical industries. Specialty products are primarily manufactured at the Company s Maywood, New Jersey, site. In the second quarter of 2011, the Company purchased three product lines from Lipid Nutrition B.V. (Lipid Nutrition), a part of Loders Croklaan B.V. The acquired product lines, which are produced at the Company s Maywood, New Jersey, plant and outside contract manufacturers, provide a portfolio of nutritional fats for the food, supplement and nutrition industries.

All three segments have growth strategies that require investment outside of North America. The Company s recent surfactant investments in Brazil and Singapore, polymer investments in Germany and Poland and specialty products investment in the Netherlands (Lipid Nutrition) have resulted in planned higher costs while facilitating the Company s long-term growth strategies.

Stock Split

On October 23, 2012, the Company s Board of Directors declared a two-for-one stock split in the form of a 100 percent stock dividend, which was distributed on December 14, 2012, to stockholders of record on November 30, 2012. All share and per share data presented in this management s discussion and analysis reflect the effects of the stock split.

Deferred Compensation Plans

The accounting for the Company s deferred compensation plans can cause year-over-year fluctuations in Company profits. Compensation expense is recorded when the values of Company common stock and mutual funds held for the plans increase, and compensation income is recorded when the values of Company common stock and mutual funds held for the plans decrease. The pretax effect of all deferred compensation-related activities (including realized and unrealized gains and losses on the mutual fund assets held to fund the deferred compensation obligations) for the years ended December 31, 2012, 2011 and 2010, and the statement of income line items in which the effects of the activities were recorded are displayed in the following tables:

(In millions)	Income (Expense) For the Year Ended December 31		
	2012	2011	Change
Deferred Compensation (Administrative expense)	($10.2)	($1.5)	$(8.7)[1]
Investment Income (Other, net)	0.1	0.1	-
Realized/Unrealized Gains (Losses) on Investments (Other, net)	1.3	(0.1)	1.4
Pretax Income Effect	($8.8)	($1.5)	$(7.3)

(In millions)	Income (Expense) For the Year Ended December 31 2011	2010	Change
Deferred Compensation (Administrative expense)	($1.5)	($5.0)	$3.5[(1)]
Investment Income (Other, net)	0.1	0.1	-
Realized/Unrealized Gains (Losses) on Investments (Other, net)	(0.1)	1.4	(1.5)
Pretax Income Effect	($1.5)	($3.5)	$2.0

(1) See the applicable Corporate Expenses section of this management s discussion and analysis for details regarding the period-to-period change in deferred compensation.

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 year-to-year comparisons of financial statement items (i.e., because foreign exchange rates fluctuate, similar year-to-year local currency results for a foreign subsidiary may translate into different U.S. dollar results). The following tables present the effects that foreign currency translation had on the year-over-year changes in consolidated net sales and various income line items for 2012 compared to 2011 and 2010 compared to 2010:

(In millions)	Year Ended December 31 2012	2011	Increase (Decrease)	(Decrease) Due to Foreign Translation
Net Sales	$ 1,803.7	$ 1,843.1	$ (39.4)	$ (39.6)
Gross Profit	291.6	255.6	36.0	(5.2)
Operating Income	128.7	118.5	10.2	(2.7)
Pretax Income	115.7	104.9	10.8	(2.6)

(In millions)	Year Ended December 31 2011	2010	Increase	Increase Due to Foreign Translation
Net Sales	$ 1,843.1	$ 1,431.1	$ 412.0	$ 27.6
Gross Profit	255.6	236.0	19.6	2.5
Operating Income	118.5	107.9	10.6	1.2
Pretax Income	104.9	101.5	3.4	1.0

RESULTS OF OPERATIONS

2012 Compared with 2011

Summary

Net income attributable to the Company for 2012 increased 10 percent to $79.4 million, or $3.49 per diluted share, compared to $72.0 million, or $3.21 per diluted share, for 2011. 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 results for 2012 compared to 2011 follows the summary.

Consolidated net sales declined $39.4 million, or two percent, year over year. Lower average selling prices and the unfavorable impact of foreign currency translation accounted for $39.7 million and $39.6 million, respectively, of the decrease. A two percent increase in sales volume offset the effects of lower prices and foreign currency translation by $39.9 million. Decreased average raw material costs for surfactants drove the decline in average selling prices. Weaker foreign currencies against the U.S. dollar for most countries in which the Company transacts business caused the unfavorable currency translation impact. Sales volume improved for the surfactants and polymers segments, but was down for specialty products.

Operating income for 2012 improved $10.3 million, or nine percent, over operating income reported for 2011. Gross profit increased $36.0 million, or 14 percent, due to higher unit profit margins and sales volumes. In addition, polymers gross profit benefited from a large sale of urethane systems used to insulate an aircraft carrier. All three segments contributed to the gross profit improvement. The effects of foreign currency translation reduced the year-over-year gross profit and operating income increases by $5.2 million and $2.7 million, respectively.

Operating expenses increased $25.7 million, or 19 percent, between years. The following summarizes the year-over-year changes in the individual income statement line items that comprise the Company s operating expenses:

Administrative expenses increased $13.2 million, or 26 percent, largely due to an $8.7 million increase in deferred compensation expense. An increase in the value of Company common stock, to which a large part of the Company s deferred compensation obligation is tied, led to the higher year-over-year deferred compensation expense. See the Overview and Corporate Expenses sections of this management discussion and analysis for further details. Legal and environmental expenses and patent filing costs accounted for $1.8 million and $0.8 million, respectively, of the year-over-year administrative expense increase. Increased costs to protect intellectual property related to the Company s global innovation and growth activities led to the higher patent filing and legal expenses. Revised estimates for remediation costs at three of the Company s environmental sites contributed about $0.7 million to the higher legal and environmental expenses. In addition to the foregoing, corporate fringe benefit (which includes incentive pay) and salary expenses increased $0.8 million and $0.7 million

between years. The increase in fringe benefits was driven by higher performance-based bonus and profit sharing expenses that reflected the year-over-year improvement in Company earnings. Additional staffing to support the Company s growth, promotions and normal pay raises caused the increase in salary expense. The effects of foreign currency translation reduced the year-over-year expense change by $0.8 million.

Selling expenses increased $7.3 million, or 16 percent, between years. Approximately $1.7 million of the increase was due to added expense incurred for the Lipid Nutrition business, which was acquired in June 2011 (i.e., 12 months of expense in 2012 compared to six months of expense in 2011). North American fringe benefit and salary expenses increased $1.7 million and $1.5 million, respectively. The increased fringe benefits included higher bonus and profit sharing expenses, and the increased salary expenses reflected additional staffing and annual pay raises. Selling expenses in Latin America were $1.3 million higher due mainly to increased personnel expenses resulting from higher staffing levels to support the Company s growth initiatives in Brazil. Total bad debt expense increased $1.1 million primarily due to favorable reserve adjustments made in 2011. The effects of foreign currency translation reduced the year-over-year selling expense change by $1.3 million.

Research, development and technical service expenses increased $5.2 million, or 13 percent, year over year. Higher North American salary and fringe benefit expenses accounted for $1.3 million and $1.2 million of the increase, respectively. Expenses for European operations were up $1.7 million between years mainly due to a $0.8 million increase in costs for registering Company products under Europe s REACH (Registration, Evaluation, Authorization and Restriction of Chemical substances) initiative and to a $0.7 million increase in salary and fringe benefit expenses. Lipid Nutrition and Singapore each added $0.4 million of additional research and development expenses (primarily personnel costs), respectively, in the current year. The effects of foreign currency translation reduced the year-over-year research, development and technical service expense increase by $0.4 million.

Interest expense, net, increased $0.5 million, or six percent, between years. Higher average borrowing levels led to the increase. In the fourth quarter of 2011, the Company secured $65 million of additional long-term notes to take advantage of low interest rates and to support global growth initiatives.

The loss from the Company s 50-percent equity joint venture (TIORCO) increased $1.1 million year over year primarily due to higher operating expenses and lower commission and technical service income. Business for the joint venture is developing slower than anticipated, but the number of opportunities in the pipeline is encouraging.

Other, net was $1.3 million of income for 2012 compared to $0.9 million of expense for 2011. Investment activity for the Company s deferred compensation and supplemental defined contribution mutual fund assets resulted in income of $1.6 million for 2012 compared to expense of $0.1 million for 2011. In addition, foreign exchange losses for 2012 totaled $0.3 million compared to $0.8 million for 2011.

The effective tax rate was 31.1 percent in 2012 compared to 30.8 percent in 2011. The increase was primarily attributable to the expiration of the U.S. research and development tax credit which was partially offset by an overall lower state effective tax rate.

On January 2, 2013 President Obama signed into law *The American Taxpayer Relief Act of 2012*, which contained a provision extending the federal research and development tax credit and the small agri-biodiesel producer tax credit retroactively from January 1, 2012 through December 31, 2013. As a result of this legislation, the Company expects to record a tax benefit of approximately $1.25 million in the first quarter of 2013 for amounts generated in 2012.

See Note 10 to the consolidated financial statements for a reconciliation of the statutory U.S. federal income tax rate to the effective tax rate.

Segment Results

(In thousands)	Surfactants	Polymers	Specialty Products	Segment Results	Corporate	Total
For the year ended December 31, 2012						
Net sales	$ 1,305,800	$ 423,959	$ 73,978	$ 1,803,737		$ 1,803,737
Operating income	118,591	48,130	12,242	178,963	(50,247)	128,716
For the year ended December 31, 2011						
Net sales	$ 1,361,956	$ 421,515	$ 59,621	$ 1,843,092		$ 1,843,092
Operating income	100,811	40,909	13,307	155,027	(36,571)	118,456

Surfactants

Surfactants net sales for 2012 declined $56.2 million, or four percent, from net sales for 2011. Lower average selling prices, primarily due to decreased raw material costs, and the effects of foreign currency translation accounted for $57.2 million and $28.1 million, respectively, of the decrease. Sales volume grew by two percent, which increased net sales by $29.1 million. All regions contributed to the sales volume improvement. A year-over-year comparison of net sales by region follows:

(In thousands)	For the Year Ended December 31, 2012	December 31, 2011	Increase (Decrease)	Percent Change
North America	$ 810,988	$ 839,940	$ (28,952)	-3
Europe	286,071	317,629	(31,558)	-10
Latin America	156,509	147,614	8,895	+6
Asia	52,232	56,773	(4,541)	-8

Total Surfactants Segment	$ 1,305,800	$ 1,361,956	$ (56,156)	-4

Net sales for North American operations decreased three percent mainly due to a four percent drop in average selling prices, which accounted for $30.5 million of the net sales decline. A slight increase in sales volume increased net sales by $2.2 million. The decrease in average selling prices was attributable to lower raw material costs, particularly for the last half of 2012, partially offset by a more favorable sales mix. Sales volume increased less than one percent between years as increases in sales of products used in agricultural and household and industrial cleaning applications were largely offset by decreases in sales of products used in consumer laundry and cleaning and personal care applications. Increased business with most major customers led to the improved sales volume of agricultural and household and industrial cleaning and products. Competitive pressures and lower surfactant requirements for certain customer applications accounted for the decline in sales volume for consumer laundry and personal care products. The effects of foreign currency translation reduced year-over-year net sales by $0.7 million.

Net sales for European operations declined 10 percent due to an eight percent decrease in average selling prices and the unfavorable effects of foreign currency translation, which accounted for $25.5 million and $15.7 million, respectively, of the net sales change. Sales volume improved three percent between years, which mitigated the year-over-year net sales decline by $9.6 million. Average selling prices fell as a result of raw material cost decreases. A weakening of the European euro and British pound sterling against the U.S. dollar caused the unfavorable foreign currency translation effect. Stronger demand and new business for the Company s laundry and cleaning products, particularly fabric softeners, accounted for the sales volume increase.

Net sales for Latin American operations grew six percent due to a 12 percent increase in average selling prices and a three percent increase in sales volume, which accounted for $18.0 million and $4.0 million, respectively, of the year-over-year net sales change. The unfavorable effects of foreign currency translation reduced the net sales improvement by $13.1 million. The higher average selling prices reflected a more favorable mix of sales, notably for the Brazil manufacturing plant for which the sale of higher value product was made possible by last year s addition of neutralizer capacity. A weakening of the Brazilian real and Mexican peso against the U.S. dollar led to the unfavorable currency translation effect.

Net sales for Asia operations declined eight percent due to a different mix of sales (a greater proportion of toll sales using raw material consigned by the customer) that more than offset a 19 percent improvement in sales volume. Stronger demand from existing customers and startup sales for the Singapore plant accounted for the volume increase.

Surfactants operating income for 2012 improved $17.8 million, or 18 percent, over operating income for 2011. Gross profit increased $24.9 million, or 14 percent, primarily due to improved margins resulting from a more favorable mix of sales and lower raw material costs. The two percent increase in sales volume and improved production efficiencies in Brazil also contributed to the profit growth. The effects of foreign currency translation reduced the year-over-year increase in gross profit by $3.6 million. Operating expenses increased $7.1 million, or nine percent. Year-over-year comparisons of gross profit by region and total segment operating expenses and operating income follow:

(In thousands)	For the Year Ended			
	December 31, 2012	December 31, 2011	Increase (Decrease)	Percent Change
Gross Profit				
North America	$ 155,891	$ 138,578	$ 17,313	+12
Europe	24,759	22,114	2,645	+12
Latin America	20,381	12,633	7,748	+61
Asia	2,339	5,192	(2,853)	-55
Total Surfactants Segment	$ 203,370	$ 178,517	$ 24,853	+14
Operating Expenses	84,779	77,706	7,073	+9
Operating Income	$ 118,591	$ 100,811	$ 17,780	+18

Gross profit for North American operations improved 12 percent year-over-year largely due to improved unit sales margins. A more favorable sales mix and lower year-over-year raw material costs drove the improvement. This was particularly evident in the final three months of 2012 as quarter-over-quarter gross profit increased $8.5 million. The favorable sales mix resulted from the previously noted increases in sales volumes of agricultural and household and industrial cleaning products. Although average sales prices declined between years, average raw material costs fell to a greater degree, which led to improved comparative margins.

Gross profit for European operations increased 12 percent, which was principally attributable to improved unit margins and the three percent increase in sales volume. Lower raw material costs, which outpaced declining selling prices, and reduced manufacturing expenses led to the improved margins. Manufacturing expenses were lower between years as expenses for 2011 included the effects of a planned three-week shutdown for a mandatory inspection at the Company s Germany plant. Partially offsetting the lower expenses was the impact of foreign currency translation, which lessened the year-over-year increase in gross profit by $1.5 million.

Gross profit for Latin American operations improved 61 percent mainly as a result of lower costs, favorable sales mix and higher sales volume. Gross profit for 2011 was negatively impacted by significant expenses related to the delayed start-up of the capacity expansion in Brazil. The favorable sales mix reflected a greater sales volume of neutralized products.

Gross profit for Asia operations declined 55 percent due to start-up and preproduction expenses related to the new plant in Singapore, which offset the effect of the 19 percent increase in sales volume. After delay, the Singapore plant produced trial quantities in the fourth quarter. In addition to the impact of the Singapore plant, prior year gross profit benefited from a $1.4 million recovery of value added tax receivables in the Philippines, which were previously reserved for due to recoverability uncertainty.

Operating expenses for the surfactants segment increased $7.1 million, or nine percent, year over year. Excluding the effects of foreign currency translation, which reduced the year-over-year change by $1.9 million, operating expenses were up $9.0 million. Selling expenses increased $4.6 million, which was primarily attributable to higher salary expenses, due to increased staffing levels and pay increases, and related personnel costs (fringe benefits, incentive pay and travel) associated with the Company s growth initiatives. Also contributing to the selling expense increase was bad debt expense, which was up $0.7 million year over year primarily due to favorable reserve adjustments in 2011. Research and development expenses increased $3.8 million largely as a result of higher salary expenses and related personnel costs. Higher expenses in Europe associated with the REACH initiative contributed $0.8 million of the increase in research and development costs.

Polymers

Polymers net sales for 2012 increased $2.4 million, or one percent, over net sales for 2011. A three percent rise in sales volume and higher average selling prices accounted for $10.6 million and $3.1 million, respectively, of the increase. The unfavorable effects of foreign currency translation reduced the net sales increase by $11.3 million. Increased costs for raw materials, particularly for North American operations, led to the higher average selling prices. Europe accounted for the sales volume growth. A year-over-year comparison of net sales by region is displayed below:

(In thousands)	For the Year Ended			
	December 31, 2012	December 31, 2011	Increase (Decrease)	Percent Change
North America	$ 262,376	$ 259,713	$ 2,663	+1
Europe	135,198	133,375	1,823	+1
Asia and Other	26,385	28,427	(2,042)	-7
Total Polymers Segment	$ 423,959	$ 421,515	$ 2,444	+1

Net sales for North American operations were up one percent due to a one percent increase in average selling prices, which increased year-over-year net sales by $3.8 million. Sales volume declined less than one percent, reducing the effect of the increase in average selling prices by $1.1 million. Higher phthalic anhydride raw material costs led to the increase in average selling prices. Polyol selling prices declined between years due to a lower cost for a major raw material. Sales volume for phthalic anhydride fell three percent between years primarily due to reduced demand for phthalic anhydride in plasticizer applications. Polyol sales volume grew two percent primarily as a result of greater demand for polyol used in rigid board insulation and in CASE applications, particularly in the fourth quarter. Given lower

anticipated demand for phthalic anhydride, the Company reduced its manufacturing capacity by shutting down its oldest, fully depreciated reactor. Management believes that the remaining capacity is adequate to meet projected sales demand as well as the Company s internal needs for the production of polyol.

Net sales for European operations increased one percent due to a 10 percent improvement in sales volume and a less than one percent rise in average selling prices, which increased year-over-year net sales by $12.9 million and $0.6 million, respectively. The unfavorable effects of foreign currency translation reduced the net sales change by $11.7 million. The improvement in sales volume reflected new uses in metal insulation panels and adhesive polyol. A year-over-year weakening of the European euro and the Polish zloty against the U.S. dollar led to the foreign currency translation effect.

Net sales for Asia and Other operations declined seven percent between years due to a seven percent decrease in average selling prices and a one percent decrease in sales volume, which accounted for $2.0 million and $0.4 million, respectively, of the year-over-year reduction in net sales. The effects of foreign currency translation mitigated the net sales decline by $0.4 million. The lower selling prices reflected a decline in raw material costs.

Polymer operating income for 2012 increased $7.2 million, or 18 percent, over operating income for 2011. Gross profit increased $10.3 million, as all three regions reported improvements. The year-over-year increase in gross profit reflected higher margins, a large North American urethane systems sale used to insulate an aircraft carrier and increased sales volume. The impact of a second quarter planned maintenance shutdown at the North American site tempered the gross profit improvement. Operating expenses increased $3.1 million, or 15 percent. Below are year-over-year comparisons of gross profit by region and total segment operating expenses and operating income:

(In thousands)	For the Year Ended			
	December 31, 2012	December 31, 2011	Increase	Percent Change
Gross Profit				
North America	$ 50,006	$ 44,296	$ 5,710	+13
Europe	18,688	14,803	3,885	+26
Asia and Other	3,207	2,455	752	+31
Total Polymers Segment	$ 71,901	$ 61,554	$ 10,347	+17
Operating Expenses	23,771	20,645	3,126	+15
Operating Income	$ 48,130	$ 40,909	$ 7,221	+18

Gross profit for North American operations increased 13 percent largely due to improved polyol margins and to the large urethane systems sale, partially offset by the effects of a planned triennial maintenance shutdown taken in the second quarter of 2012. The maintenance shutdown resulted in approximately $1.0 million of additional costs for outsourcing a portion of the Company s second quarter requirements of phthalic anhydride.

Gross profit for European operations increased 26 percent, which was attributable to improved unit margins and higher sales volumes. The increase in unit margins included the elimination of outsourced volumes necessitated in 2011 due to a reactor fire in Germany s polyol plant. Foreign currency translation had a $1.6 million negative effect on the year-over-year change in gross profit.

As noted in prior filings, in May of 2011 one of two reactors in the German polyol plant sustained fire damage. The damaged equipment was repaired and placed back into service in the fourth quarter of 2011. The Company has insurance policies to cover repair costs and business interruption losses. In the fourth quarter of 2012, the Company settled its insurance claim against one of two insurers. The settlement did not have a material effect on the Company s financial results. The claim against the second insurer has not yet been settled.

Gross profit for Asia and Other operations increased 31 percent primarily due to improved margins resulting from lower raw material costs. As noted in previous filings, local government officials in Nanjing, China, have informed the Company that its manufacturing facility in that city will need to be relocated. The Company s intention is to build a new facility, projected to be operational in 2015, in the Nanjing Chemical Industrial Park. In 2012, the Company purchased land use rights for the site on which the new manufacturing plant will be constructed. Scoping and costing of the project are ongoing. Management believes that there will be a period of time for which the existing plant will be out of service while the new plant is under construction. During that period, customers requirements will be outsourced from other Company plants or from an outside chemical company, which will negatively affect profits. In addition, as a result of the impending move, the Company reduced the useful life of the current plant s assets, thereby accelerating depreciation expense. The accelerated depreciation did not have a significant effect on profits for 2012, and is not expected to have a material effect on 2013 earnings.

Operating expenses for the polymers segment increased $3.1 million, or 15 percent, between years. Excluding the effects of foreign currency translation, the year-over-year increase was $3.7 million. Selling expenses increased $2.3 million, which was primarily attributable to higher salary expenses, due to increased staffing levels and pay increases, and the related personnel costs (fringe benefits and incentive pay). In addition, bad debt expense increased $0.4 million between years. The increase in bad debt expense reflected favorable provision adjustments made in 2011. Research and development expenses increased $0.8 million mainly due to increased salaries and related personnel costs.

Specialty Products

Net sales for 2012 increased $14.4 million, or 24 percent, over net sales for 2011. The business added when the Lipid Nutrition product lines were acquired in June 2011 accounted for the net sales improvement. Year-over-year net sales and sales volume excluding the new Lipid Nutrition business were down five percent and 13 percent, respectively, primarily for the segment s legacy multi-chain triglyceride product lines, due to lost customer share resulting from increased foreign competition. Gross profit increased $1.3 million, or seven percent, between years, due to the addition of the Lipid Nutrition product lines, but operating income fell $1.1 million, or eight percent. The combination of incremental operating expenses needed to support the Lipid Nutrition product lines and weakness in multi-chain triglyceride sales led to the operating income decline.

Corporate Expenses

Corporate expenses, which comprise operating expenses that are not allocated to the reportable segments, increased $13.6 million to $50.2 million for 2012 from $36.6 million for 2011. Increases in deferred compensation expense, legal and environmental expenses and patent filing costs accounted for $8.7 million, $1.8 million and $0.8 million of the increase, respectively. Fringe benefits (which included incentive pay), salary expenses and travel-related expenses were also up year over year ($0.8 million, $0.7 million and $0.5 million, respectively).

With respect to deferred compensation, the Company recorded $10.2 million of expense for 2012 compared to $1.5 million of expense for 2011. Increases in the value of Company common stock, to which a large part the deferred compensation obligation is tied, accounted for most of the higher year-over-year deferred compensation expense. For 2012, the value of Company stock increased $15.46 per share from $40.08 per share at December 31, 2011, to $55.54 per share at December 31, 2012. For 2011, the Company s common stock price increased $1.94 per share from $38.14 per share at December 31, 2010, to $40.08 per share at December 31, 2011. The accounting for the Company s deferred compensation plans results in expense when the values of Company common stock and mutual fund investment assets held for the plans increase and income when the values of Company common stock and mutual funds decline.

The increases in legal and environmental expenses and patent filing costs were primarily attributable to increased costs to support the Company s global innovation and growth activities. Revised estimates for remediation costs for three of the Company s environmental sites contributed about $0.7 million to the higher legal and environmental expenses.

The increase in fringe benefits was driven by higher bonus and profit sharing expenses that reflected the year-over-year improvement in Company earnings. Additional staffing to support the Company s growth, promotions and normal pay raises caused the increase in salary expense.

2011 Compared with 2010

Summary

Net income attributable to the Company for 2011 increased 10 percent to $72.0 million, or $3.21 per diluted share, compared to $65.4 million, or $2.95 per diluted share, for 2010. A detailed discussion of segment operating performance follows the summary.

Consolidated net sales for 2011 increased $412.0 million, or 29 percent, over net sales for 2010. Higher average selling prices, a three percent improvement in sales volume and the favorable effects of foreign currency translation accounted for approximately $340.6 million, $43.8 million and $27.6 million, respectively, of the increase. Higher year-over-year raw material costs were the primary drivers for the increase in average selling prices. Sales volume was up for all three reportable segments. The foreign currency translation effect reflected a weaker U.S. dollar against all foreign currencies in which the Company transacts business.

The Company s 2011 operating income grew $10.6 million, or 10 percent, over 2010 operating income. Gross profit increased $19.6 million, or eight percent, primarily on improved results for the surfactants and polymers segments. Gross profit for the specialty products segment was also up year over year due to the new Lipid Nutrition product line acquired in the second quarter of 2011. The favorable effects of foreign currency translation added $2.5 million to the year-over-year increase in gross profit.

Operating expenses increased $9.0 million, or seven percent, year over year primarily due to the following:

Selling expenses increased $5.5 million, or 14 percent, year over year. Expenses related to the Company s growth initiatives in Singapore, Brazil and Poland and the consolidation of the Philippines entity accounted for $2.6 million of the increase. In addition, first-time expenses related to the product lines acquired in the Lipid Nutrition acquisition (completed in the second quarter of 2011) added $1.6 million. U.S. travel-related expenses were up $0.6 million, and the effects of foreign currency translation contributed $0.6 million of the year-over-year change.

Administrative expenses increased $1.3 million, or three percent, due to $1.4 million of added expenses related to the acquired entities that were not consolidated until the third quarter of 2010 and $1.1 million of legal and environmental expenses. The comparative increase in legal and environmental expenses was the result of favorable nonrecurring adjustments made in 2010 reflecting the reduction of the Company s clean-up cost liability at two sites. In addition to the foregoing, expenses related to the acquired Lipid Nutrition product lines, increased expenses in Brazil to support the growth opportunities in Latin America and higher salary expense in the U.S. contributed $0.6 million, $0.4 million and $0.4 million, respectively, to the increase. The effects of foreign currency translation added $0.6 million to the increase. Lower deferred compensation expense reduced the year-over-year increase in administrative expenses by $3.5 million. See the Overview and Corporate Expenses sections of this management discussion and analysis for details regarding deferred compensation.

Research, development and technical service expenses were up $2.2 million, or six percent. An increase in U.S. expenses ($2.7 million), largely due to additional staff and salary expenses, was partially offset by lower product registration expenses under Europe s Registration, Evaluation, Authorization of Chemical Substances (REACH) regulation ($0.9 million). Increased expenses for the Company s operation in Poland ($0.3 million), which reflected a full year of expenses compared to a partial year in 2010, also contributed to the year-over-year increase.

Interest expense, net, was up $2.8 million, or 43 percent, between 2011 and 2010. Higher average borrowing levels led to the increase. The rise in the average debt levels was, in

part, attributable to working capital requirements that were driven higher by raw material cost inflation. In addition, in November 2011 and June 2010, the Company secured $65 million and $40 million of additional long-term notes, respectively, to take advantage of low interest rates and support global growth initiatives.

The loss from equity joint ventures, which included results for TIORCO for 2011 and the results for TIORCO and SPI for the first three quarters of 2010 (the 2010 amount included SPI results for the first half of the year plus part of the third quarter), increased $2.0 million year over year. SPI s equity income in 2010 was $1.2 million, which included a $0.7 million gain related to revaluing the Company s original 50 percent interest in SPI as part of the 2010 acquisition of controlling interest in the entity. The TIORCO joint venture is primarily a cost sharing venture with Nalco Company (now a part of Ecolab Inc.), as the Company sells surfactants directly into the enhanced recovery market and the corresponding profit resides in the surfactants segment operating results. As planned, the equity loss in TIORCO increased $0.8 million year over year.

Other, net was $0.9 million of expense for 2011 compared to $1.6 million of income for 2010. Investment losses, attributable to the Company s deferred compensation and supplemental defined contribution plan mutual fund investments, amounted to $0.1 million for 2011 compared to $1.5 million of gains for 2010. The Company reported foreign exchange losses of $0.8 million in 2011 versus $0.1 million of gains in 2010.

The effective tax rate was 30.8 percent in 2011 compared to 35.4 percent in 2010. The decrease was primarily attributable to the implementation of a holding company structure that provides a recurring benefit in lowering the effective tax rate on foreign earnings. Also contributing to the decrease was a non-recurring provision in 2010 related to the purchase of an increased ownership in SPI and a dividend from the Company s subsidiary in Colombia. An increase in U.S. credits also contributed to the lower effective tax rate, but this was offset by the enactment of a higher Illinois corporate income tax rate in 2011.

Segment Results

(In thousands)	Surfactants	Polymers	Specialty Products	Segment Results	Corporate	Total
For the year ended December 31, 2011						
Net sales	$ 1,361,956	$ 421,515	$ 59,621	$ 1,843,092		$ 1,843,092
Operating income	100,811	40,909	13,307	155,027	(36,571)	118,456
For the year ended December 31, 2010						
Net sales	$ 1,057,982	$ 330,416	$ 42,724	$ 1,431,122		$ 1,431,122
Operating income	93,010	36,904	14,499	144,413	(36,516)	107,897

Surfactants

Surfactants net sales for 2011 increased $304.0 million, or 29 percent, over net sales for 2010. Higher average selling prices, primarily due to higher raw material costs, accounted for $264.5 million of the net sales change. Sales volume grew by two percent, largely due to new business in Latin America and the inclusion of a full year of Philippine subsidiary results in 2011 compared to five months in 2010. Sales volume accounted for approximately $19.2 million of the net sales improvement. The favorable effects of foreign currency translation added $20.3 million to the favorable change between years. A year-over-year comparison of net sales by region follows:

(In thousands)	For the Year Ended			
	December 31, 2011	December 31, 2010	Increase	Percent Change
North America	$ 839,940	$ 679,810	$ 160,130	+24
Europe	317,629	248,749	68,880	+28
Latin America	147,614	110,896	36,718	+33
Asia	56,773	18,527	38,246	+206
Total Surfactants Segment	$ 1,361,956	$ 1,057,982	$ 303,974	+29

Net sales for North American operations increased 24 percent due to a 28 percent increase in average selling prices and the favorable effect of foreign currency translation, which accounted for $181.6 million and $2.8 million, respectively, of the net sales change. A four percent decline in sales volume reduced the year-over-year change by $24.3 million. The increase in average selling prices was primarily attributable to higher year-over-year raw material costs. Raw material prices rose through the first three quarters of 2011 and began to decline in the fourth quarter. A more favorable sales mix also contributed to the improvement in average selling prices. Sales volume declined largely due to a decrease in laundry and cleaning product sales partially offset by increased sales of agricultural surfactants and biodiesel products. The decline in laundry and cleaning products volume resulted from nonrecurring business in 2010 and weaker demand brought on, in part, by changes in customer product formulations. Stronger demand from all major customers and new business led to the better year-over-year sales volume of agricultural products. The escalating cost of crude oil led to new customers for the Company s biodiesel products. Total North American sales volume for the fourth quarter of 2011 was up three percent over the same period of 2010, somewhat reversing the trend of the first three quarters.

Net sales for European operations increased 28 percent due to a 28 percent increase in average selling prices and the favorable effects of foreign currency translation, which accounted for $66.9 million and $13.0 million, respectively, of the net sales increase. Sales volume declined four percent between 2011 and 2010, which reduced the year-over-year change by $11.0 million. Rising raw material costs drove average selling prices higher. A strengthening of the European euro and British pound sterling against the U.S. dollar in the first three quarters of 2011 led to the favorable foreign currency translation effect. The sales volume decline was attributable to the UK subsidiary where some laundry and cleaning and personal care business was lost due to price competition.

Net sales for Latin American operations improved 33 percent due to a 13 percent increase in average selling prices and a 14 percent increase in sales volume, which accounted for $16.9 million and $15.8 million, respectively, of the year-over-year net sales change. The favorable effects of foreign currency translation contributed $4.0 million to the net sales growth. Sales volume increased for all three Latin American subsidiaries, with the Brazil facility posting a 22 percent increase due to business gained as a result of the location s additional neutralizing capacity. The higher average selling prices were largely attributable to increased raw material costs. The strengthening of all three locations currencies against the U.S. dollar led to the favorable currency translation effect.

The net sales increase for Asia operations reflected a full year of sales for the Company s Philippines subsidiary in 2011 compared to approximately five months of sales in 2010. Excluding the additional months included in the current year s results, sales volume was up 17 percent over last year.

Surfactants operating income for 2011 was $7.8 million higher than operating income for 2010. Gross profit increased $13.7 million principally due to the effects of improved margins in North America and the inclusion of the Philippines income in segment results. Lower European operations gross profit, due to reduced sales volume and higher manufacturing expenses, and lower Latin America gross profit, largely due to costs related to the start up of the neutralizer expansion in Brazil, negatively impacted surfactants gross profit. Operating expenses increased $5.9 million, or eight percent. Year-over-year comparisons of gross profit by region and total segment operating expenses and operating income follow:

(In thousands)	For the Year Ended			
	December 31, 2011	December 31, 2010	Increase (Decrease)	Percent Change
Gross Profit				
North America	$ 138,578	$ 124,456	$ 14,122	+11
Europe	22,114	24,451	(2,337)	-10
Latin America	12,633	14,697	(2,064)	-14
Asia	5,192	1,201	3,991	+332
Total Surfactants Segment	$ 178,517	$ 164,805	$ 13,712	+8
Operating Expenses	77,706	71,795	5,911	+8
Operating Income	$ 100,811	$ 93,010	$ 7,801	+8

Gross profit for North American operations improved 11 percent year-over-year despite a four percent decline in sales volume. A more favorable sales mix and the previously noted increase in average selling prices more than offset the impact of the decrease in sales volume. In addition, 2010 gross profit was negatively affected by expenses associated with a one-month lockout of hourly workers at the Company s Millsdale (Illinois) plant related to a labor agreement dispute.

Gross profit for European operations declined 10 percent due to lower sales volume and higher manufacturing expenses. Manufacturing expenses were up about $2.9 million, or 10 percent, year-over-year primarily as a result of increased maintenance costs for the United Kingdom and Germany facilities. In addition, the effects of a planned three-week shutdown for a mandatory inspection at the Company s Germany subsidiary contributed to the rise in manufacturing expenses. The favorable effects of foreign currency translation lessened the year-over-year decline in gross profit by $0.9 million.

Gross profit for Latin American operations declined 14 percent despite the 14 percent increase in sales volume. One-time costs related to a delay in the start up of the recent neutralizer capacity expansion project in Brazil and increased manufacturing costs attributable to the new neutralization capabilities more than offset the effect of the higher sales volume. In addition to the costs for Brazil, the decline in gross profit also reflected selling price increases that lagged raw material cost increases, particularly for the Mexico subsidiary. With spending on these one-time activities complete, fourth quarter 2011 gross profit exceeded fourth quarter 2010 gross profit by $1.2 million, or 42 percent.

The $4.0 million gross profit increase for Asia operations reflected a full year of profit for the Company s Philippines subsidiary in 2011 compared to only five months of gross profit in 2010, when it was first consolidated after securing majority ownership. In addition, the current year results benefited from a $1.4 million recovery of value added tax receivables, which were reserved for in a prior year due to collection uncertainty.

Operating expenses for the surfactants segment increased $5.9 million, or eight percent, year over year. Higher expenses for North American operations ($3.7 million), additional expenses for the Singapore and Philippines locations, which were first consolidated in the third quarter of 2010 ($1.7 million), and the effects of foreign currency translation ($1.1 million) accounted for most of the operating expense increase. The increase in North America operating expenses was attributable to higher research and development ($2.1 million) and selling expenses ($1.8 million). Higher salary and temporary help expenses accounted for the increased North America research and development expense. Increased support expenses for the expanding Asia operations accounted for most of the increase in North American selling expenses. The remainder of the year-over-year difference was attributable to lower European operation expenses ($1.9 million) partially offset by higher Latin American operation expenses ($1.4 million).

Polymers

Polymers net sales for 2011 increased $91.1 million, or 28 percent, over net sales for 2010. Higher average selling prices, a nine percent improvement in sales volume and the favorable effects of foreign currency translation accounted for $55.3 million, $28.4 million and $7.4 million, respectively, of the increase. The higher average selling prices reflected increased costs for raw materials. All regions contributed to the improvement in sales volume. A year-over-year comparison of net sales by region is displayed below:

(In thousands)	For the Year Ended			
	December 31, 2011	December 30, 2010	Increase	Percent Change
North America	$ 259,713	$ 213,223	$ 46,490	+22
Europe	133,375	96,463	36,912	+38
Asia and Other	28,427	20,730	7,697	+37
Total Polymers Segment	$ 421,515	$ 330,416	$ 91,099	+28

Net sales for North American operations increased 22 percent due to a 16 percent increase in average selling prices and a five percent increase in sales volume, which accounted for $36.1 million and $10.4 million, respectively, of the net sales improvement. Higher raw material costs across all polymer product lines led to the higher average selling prices. Sales volume for polyols increased 12 percent largely due to increased demand from existing rigid insulation board customers. Sales volume for phthalic anhydride declined three percent due to weaker demand from polyester resin customers.

Net sales for European operations increased 38 percent due to a 15 percent rise in average selling prices, a 15 percent improvement in sales volume and the favorable effects of foreign currency translation, which accounted for $16.6 million, $14.1 million and $6.2 million, respectively, of the net sales growth. The higher average selling prices reflected higher year-over-year raw material costs. The increase in sales volume resulted from stronger demand from most major rigid insulation board customers and new demand for metal panel insulation and adhesive applications. The Company s Poland subsidiary, which was acquired in the third quarter of 2010, accounted for 51 percent of the year-over-year sales volume growth.

Net sales for Asia and Other operations increased 37 percent year-over-year due to a 20 percent increase in sales volume, a nine percent increase in average selling prices and the favorable effects of foreign currency translation, which accounted for $4.1 million, $2.4 million and $1.2 million, respectively, of the rise in net sales. New business for the China subsidiary led to the improvement in sales volume.

Polymer operating income for 2011 improved $4.0 million, or 11 percent, over operating income for 2010. Gross profit increased $6.2 million, as all three regions posted gains. Operating expenses increased $2.2 million, or 12 percent. Below are year-over-year comparisons of gross profit by region and total segment operating expenses and operating income:

(In thousands)	For the Year Ended			
	December 31, 2011	December 31, 2010	Increase	Percent Change
Gross Profit				
North America	$ 44,296	$ 41,821	$ 2,475	+6
Europe	14,803	12,087	2,716	+22
Asia and Other	2,455	1,434	1,021	+71
Total Polymers Segment	$ 61,554	$ 55,342	$ 6,212	+11
Operating Expenses	20,645	18,438	2,207	+12
Operating Income	$ 40,909	$ 36,904	$ 4,005	+11

Gross profit for North American operations was up six percent principally due to the five percent increase in sales volume. Unit margins were up year-over-year, but higher raw material costs pushed margins lower in the fourth quarter, particularly for the phthalic anhydride product line. A seven percent increase in manufacturing expenses, primarily due to increases in depreciation and personnel related expenses, negatively affected the year-over-year change in gross profit.

Gross profit for European operations increased 22 percent due to the 15 percent improvement in sales volume and $0.8 million in favorable foreign currency translation impact. Unit margins for 2011 approximated those for 2010. The impact of selling price increases was largely offset by the effects of higher raw material costs and costs to outsource polyols from the segment s North American operations as a result of fire damage to one of the Company s polyol reactors in Germany that occurred in the second quarter of 2011. The damaged equipment was placed back into service in the fourth quarter.

Gross profit for Asia and Other operations increased 71 percent due to selling price increases and to the 20 percent growth in sales volume.

Operating expenses increased $2.2 million year-over-year due to higher selling ($1.0 million), research and development ($0.8 million) and administrative expenses ($0.4 million) expenses. Increased travel, salary and fringe benefit expenses, partially offset by reductions in bad debt expense, and the inclusion of a full year of Poland subsidiary expenses accounted for the higher selling expenses. Increased salary expenses coupled with the inclusion of a full year of Poland subsidiary expenses accounted for the rise in research and development expenses. European and Asia operations each accounted for about half of the increase in administrative expenses.

Specialty Products

Net sales for 2011 increased $16.9 million, or 40 percent, over net sales for 2010 largely due to sales related to the new Lipid Nutrition product lines ($13.7 million) and to an 11 percent increase in sales volume for food ingredient products. Operating income was down $1.2 million, or eight percent, between years primarily due to higher food ingredient raw material costs, for which competitive pressures have made it difficult to raise selling prices. The Lipid Nutrition product lines positively affected the segment s year-over-year results, adding $1.2 million of operating income.

Corporate Expenses

Corporate expenses of $36.6 million for 2011 were $0.1 million higher than corporate expenses reported for 2010. Deferred compensation expense declined $3.5 million year-over-year, but was offset by increases in a number of other expenses, notably a $1.1 million comparative increase in legal and environmental expenses, $0.9 million of higher expense resulting from derivative income reported in 2010 arising from recording certain electric contracts at fair value (the Company held no such contracts during 2011) and a $0.4 million increase in salary expense. The comparative increase in legal and environmental expenses reflected favorable adjustments made in 2010 as a result of the reduction of the Company s clean-up cost liability at two sites. Increases in other corporate expenses, such as hiring, temporary help and patent fees, contributed to offsetting the effect of deferred compensation.

With respect to deferred compensation, a smaller year-to-year increase in the value of Company stock and declines in the values of the mutual fund assets held to fund the deferred compensation obligations led to the lower year-over-year deferred compensation expense. The value of Company common stock increased $1.94 per share from $38.14 per share at December 31, 2010, to $40.08 per share at December 31, 2011. For 2010, the Company s common stock price increased $5.73 per share from $32.41 per share at December 31, 2009, to $38.14 per share at December 31, 2010.

Outlook

The investments made over the last several years helped the Company deliver a 16 percent increase in full year net income, excluding deferred compensation. In 2013 the Company will continue to pursue geographic expansion and higher value opportunities within all three business segments. The Company s strategy and ability to execute provide an opportunity for continued earnings growth in 2013.

Surfactants expects to continue to derive more of its profits from higher value added products in the agricultural, oilfield and household and industrial cleaning markets. Demand for crop protection chemicals is expected to remain strong in 2013. The Company is positioned for further profit growth in Brazil. The Singapore plant is now operational and should contribute modestly to earnings in 2013 and more significantly beyond that as production at the site is diversified.

Polymers should experience continued growth from polyol used in energy saving rigid foam insulation. Recent demand growth has largely come from greater insulation levels for

replacement roofing. A recovering economy would stimulate the commercial construction market and eventually restore that demand. The polymers segment is expected to face higher costs to operate in China in 2013 and 2014 as the government is requiring that the Company s plant in China be relocated to a new industrial zone. The Company plans to supply its Asian customers with product toll produced by another chemical plant in China or imported from other Company production sites. Management anticipates that the higher costs of operating in China will limit polymer earnings growth in 2013.

In 2012 the Company achieved its fifth consecutive record income year and its forty-fifth consecutive annual dividend increase. The Company s balance sheet is strong and management intends to leverage that strength to make investments that will accelerate Company growth and deliver value to Company shareholders.

Liquidity and Financial Condition

For 2012, net cash flow from operating activities of $109.0 million was used to fund investing cash outflows of $87.4 million, net debt reductions of $17.7 million and other financing cash outflows of $11.8 million. Exchange rates increased cash by $0.7 million resulting in a year-to-year cash decrease of $7.2 million.

For the full-year period, net income increased by $7.1 million and working capital consumed $25.5 million less than in 2011. Cash used for investing activities decreased by $13.9 million versus the prior year. Financing cash flows comprised a cash use of $29.5 million in 2012 compared to a use of $2.1 million in 2011.

For 2012, accounts receivable were a source of $3.9 million versus a use of $60.8 million for 2011. Inventories were a use of $50.3 million in 2012 versus a use of $12.9 million in 2011. Accounts payable and accrued liabilities were a source of $24.1 million for 2012 versus a source of $25.9 million for 2011.

The Company experienced lower material costs during 2012, which mitigated the cash impact on receivables of higher current year fourth-quarter sales volumes and higher inventory quantities compared to one year earlier. During 2011, the Company experienced rising raw material costs, which resulted in higher working capital and a significant impact on the Company s overall cash flow. The Company s working capital investment is heavily influenced by the cost of crude oil and natural oils, from which many of its raw materials are derived. Fluctuations in raw material costs translate directly to inventory carrying costs and indirectly to customer selling prices and accounts receivable.

The 2012 accounts receivable cash source resulted from lower end-of-year sales revenue, driven by raw material deflation, despite slightly higher sales volume for the fourth quarter of 2012 versus the comparable quarter last year. In contrast, the 2011 accounts receivable cash use was driven mostly by raw material inflation accompanied by higher sales volumes. Accounts receivable turnover did not change significantly from year to year and was not a significant cash flow factor in either year. The 2012 inventory cash use was driven by the addition of production in Singapore and higher inventory quantities at other locations to support customer service, partially offset by lower average costs. For 2011, the inventory cash use was driven mainly by raw material inflation along with higher quantities. The Company has not changed its own payment practices related to its payables. It is management s opinion that the Company s liquidity is sufficient to provide for potential increases in working capital during 2013.

Investing cash outflows for 2012 totaled $87.4 million versus $101.4 million for 2011. Capital expenditures were nearly unchanged at $83.2 million for both years. Investing cash outflows for 2011 included $13.6 million for the purchase of certain product lines of Lipid Nutrition B.V., a part of Loders Croklaan B.V. The Company liquidated $0.5 million of investments for benefit plan participant payouts in 2012 versus $1.6 million in 2011.

For 2013, the Company estimates that capital expenditures will range from $110 million to $115 million including capacity expansions in Brazil, Germany, China and the United States.

The Company purchases its common 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. During 2012, the Company purchased 46,040 common shares in the open market at a total cost of $2.1 million. See Part II, Item 5(a) of this annual Report on Form 10-K for information regarding the Company s share repurchase authorization.

At December 31, 2012, the Company s cash and cash equivalents totaled $76.9 million, including $25.6 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 $7.3 million and cash of the Company s non-U.S. subsidiaries held outside the U.S. totaled $44.0 million as of December 31, 2012.

Consolidated debt decreased by $17.1 million year over year, from $199.5 million to $182.4 million with decreases of $12.7 million for domestic and $4.4 million for foreign. Net debt (which is defined as total debt minus cash) decreased by $9.9 million during 2012, from $115.4 million to $105.5 million. At December 31, 2012, the ratio of total debt to total debt plus shareholders equity was 27.5 percent compared to 33.0 percent as of December 31, 2011. As of December 31, 2012, the ratio of net debt to net debt plus shareholders equity was 18.0 percent, compared to 22.1 percent at December 31, 2011.

As of December 31, 2012, the Company s debt included $152.1 million of unsecured private placement loans with maturities extending from 2013 through 2023. 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.

On September 20, 2012, the Company entered into a committed $125.0 million multi-currency five-year revolving credit agreement with JPMorgan Chase Bank, N.A., as administrative agent, and four other U.S. banks. The credit agreement allows the Company to make unsecured borrowings, as requested from time to time, for working capital and other corporate purposes. The credit agreement replaced the Company s previous revolving credit agreement that would have expired in August 2013 and was terminated simultaneously with the credit agreement. This unsecured facility is the Company s primary source of short-term borrowings and is committed through September 20, 2017, with terms and conditions that are substantially equivalent to those of the Company s other U.S. loan agreements. As of December 31, 2012, the Company had outstanding letters of credit of $2.6 million under this agreement and no borrowings, with $122.4 million remaining available. The Company anticipates that cash from operations, committed credit facilities and cash on hand 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. At December 31, 2012, the Company s European subsidiaries had bank term loans of $8.6 million with maturities through 2016 and short-term bank debt of $16.1 million with remaining short-term borrowing capacity of $19.2 million. The Company s Latin American subsidiaries had no short-term bank debt with $10.6 million of unused short-term borrowing capacity. The Company s Philippine subsidiary had $4.5 million of bank term loans with maturities through 2014, which were guaranteed by the Company. The Company s majority-owned joint venture in China had short-term bank debt of $1.1 million and outstanding letters of credit of $0.9 million, with unused borrowing capacity of $4.4 million, on bank credit lines guaranteed by the Company.

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 the Company, Stepan Canada Inc., Stepan Specialty Products, LLC, Stepan Specialty Products B.V. and Stepan Asia Pte. Ltd. (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 $275.0 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 after December 31, 2011, in amounts of up to $100.0 million plus 100 percent of net income and cash proceeds of stock option exercises, measured cumulatively after June 30, 2012. The maximum amount of dividends that could have been paid within this limitation is disclosed as unrestricted retained earnings in Note 6, Debt, in the Notes to Consolidated Financial Statements.

The Company believes it was in compliance with all of its loan agreements as of December 31, 2012. Based on current projections, the Company believes it will be in compliance with its loan agreements throughout 2013.

Contractual Obligations

At December 31, 2012, the Company s contractual obligations, including estimated payments by period, were as follows:

(In thousands)		Payments Due by Period			
	Total	Less than 1 year	1-3 years	3 5 years	More than 5 years
Long-term debt obligations	$ 182,402	$ 32,838	$ 26,436	$ 33,128	$ 90,000
Interest payments on debt obligations [(a)]	49,551	8,745	15,106	11,909	13,791
Capital lease obligations	586	293	293		
Operating lease obligations	33,319	4,730	6,034	3,980	18,575
Purchase obligations [(b)]	15,166	13,651	1,515		
Other [(c)]	17,172	2,808	1,669	1,734	10,961
Total	$ 298,196	$ 63,065	$ 51,053	$ 50,751	$ 133,327

(a) Interest payments on debt obligations represent interest on all Company debt at December 31, 2012. The interest payment amounts related to the variable rate component of the Company s debt assume that interest will be paid at the rates prevailing at December 31, 2012. Future interest rates may change, and therefore, actual interest payments would differ from those disclosed in the above table.

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

(c) The Other category comprises deferred revenues that represent commitments to deliver products, expected 2013 required contributions to the Company s funded defined benefit pension plans, estimated payments related to the Company s unfunded defined benefit supplemental executive and outside director pension plans, estimated payments (undiscounted) related to the Company s asset retirement obligations, and environmental remediation payments for which amounts and periods can be reasonably estimated.

The above table does not include $89.2 million of other non-current liabilities recorded on the balance sheet at December 31, 2012, as summarized in Note 15 to the consolidated financial statements. The significant non-current liabilities excluded from the table are defined benefit pension, deferred compensation, environmental and legal liabilities and unrecognized tax benefits for which payment periods can not be reasonably determined. In addition, deferred income tax liabilities are excluded from the table due to the uncertainty of their timing.

Pension Plans

The Company sponsors a number of defined benefit pension plans, the most significant of which cover employees in its U.S. and U.K. locations. The U.S. and U.K. plans have been frozen, and service benefit accruals are no longer being made. The underfunded status of the Company s defined benefit pension plans declined $0.3 million year-over-year, from $36.0 million at December 31, 2011, to $35.7 million at December 31, 2012. The effects of year-over-year declines in the discount rates used to measure pension obligations (89 and 60 basis point declines for the U.S. and U.K. plans, respectively) were offset by pension asset gains and Company contributions. The Company contributed $6.4 million to its funded defined benefit pension plans in 2012. The Company expects to contribute approximately $1.0 million to the U.K. plan in 2013. Due to a reduced minimum funding requirement precipitated by the Pension

Funding Stabilization provision of the MAP-21 Act (Moving Ahead for Progress in the 21st Century Act) placed into law in 2012, the Company does not expect to make contributions to its funded U.S. qualified defined benefit pension plans in 2013. Payments to participants in the unfunded non-qualified plans will approximate $0.2 million in 2013, which approximates the 2012 payments.

Letters of Credit

The Company maintains standby letters of credit under its workers compensation insurance agreements and for other purposes as needed. The insurance letters of credit are renewed annually and amended to the amounts required by the insurance agreements. As of December 31, 2012, the Company had a total of $2.6 million in outstanding standby letters of credit.

Off-Balance Sheet Arrangements

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

Environmental and Legal Matters

The Company s operations are subject to extensive local, state and federal regulations. Although the Company s environmental policies and practices are designed to ensure compliance with these regulations, future developments and increasingly stringent environmental regulation could require the Company to make additional environmental expenditures. The Company will continue to invest in the equipment and facilities necessary to comply with existing and future regulations. During 2012, the Company s expenditures for capital projects related to the environment were $5.3 million. These projects are capitalized and depreciated over their estimated useful lives, which are typically 10 years. Recurring costs associated with the operation and maintenance of facilities for waste treatment and disposal and managing environmental compliance in ongoing operations at the Company s manufacturing locations were approximately $18.3 million for 2012, $16.0 million for 2011 and $15.7 million for 2010. While difficult to project, it is not anticipated that these recurring expenses will increase significantly in the future.

Over the years, the Company has received requests for information related to or has been named by the government as a potentially responsible party at a number of waste disposal sites where cleanup costs have been or may be incurred under CERCLA and similar state statutes. In addition, damages are being claimed against the Company in general liability actions for alleged personal injury or property damage in the case of some disposal and plant sites. The Company believes that it has made adequate provisions for the costs it may incur with respect to the sites. See the Critical Accounting Policies section that follows for a

discussion of the Company s environmental liabilities accounting policy. After partial remediation payments at certain sites, the Company has estimated a range of possible environmental and legal losses from $10.3 million to $28.9 million at December 31, 2012, compared to $8.8 million to $28.6 million at December 31, 2011. At December 31, 2012, the Company s accrued liability for such losses, which represented the Company s best estimate within the estimated range of possible environmental and legal losses, was $15.4 million compared to $14.6 million at December 31, 2011. Because the liabilities accrued are estimates, actual amounts could differ from the amounts reported. During 2012, cash outlays related to legal and environmental matters approximated $3.3 million compared to $4.9 million expended in 2011.

For certain sites, the Company has responded to information requests made by federal, state or local government agencies but has received no response confirming or denying the Company s stated positions. As such, estimates of the total costs, or range of possible costs, of remediation, if any, or the Company s share of such costs, if any, cannot be determined with respect to these sites. Consequently, the Company is unable to predict the effect thereof on the Company s financial position, cash flows and results of operations. Given the information available, management believes the Company has no liability at these sites. However, in the event of one or more adverse determinations with respect to such sites in any annual or interim period, the effect on the Company s cash flows and results of operations for those periods could be material. Based upon the Company s present knowledge with respect to its involvement at these sites, the possibility of 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.

See Item 3, Legal Proceedings, in this Form 10-K and in other filings of the Company with the Securities and Exchange Commission, which are available upon request from the Company. See also Note 16, Contingencies, in the Notes to Consolidated Financial Statements for a summary of the significant environmental proceedings related to certain environmental sites.

Climate Change Legislation

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

Critical Accounting Policies

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

Deferred Compensation

The Company sponsors deferred compensation plans that allow management employees to defer receipt of their annual bonuses and outside directors to defer receipt of their fees until retirement, departure from the Company or as elected by the participant. The plans allow for the deferred compensation to grow or decline based on the results of investment options chosen by the participants. The investment options include Company common stock and a limited selection of mutual funds. The Company funds the obligations associated with these plans by purchasing investment assets that match the investment choices made by the plan participants. A sufficient number of shares of treasury stock are maintained on hand to cover the equivalent number of shares that result from participants electing the Company common stock investment option. As a result, the Company must periodically purchase its common shares in the open market. Upon retirement or departure from the Company, participants receive cash amounts equivalent to the payment date value of the investment choices they have made or Company common stock shares equal to the number of share equivalents held in the accounts.

Some plan distributions may be made in cash or Company common stock at the option of the participant. Other plan distributions can only be made in Company common stock. For deferred compensation obligations that may be settled in cash, the Company must record appreciation in the market value of the investment choices made by participants as additional compensation expense. Conversely, declines in the value of Company stock or the mutual funds results in a reduction of compensation expense since such declines reduce the cash obligation of the Company as of the date of the financial statements. These market price movements may result in significant period-to-period fluctuations in the Company s income. Because the obligations that must be settled only in Company common stock are treated as equity instruments, fluctuations in the market price of the underlying Company stock do not affect earnings.

At December 31, 2012, the Company s deferred compensation liability was $42.2 million, of which approximately 70 percent represented deferred compensation tied to the performance of the Company s common stock; the remainder was tied to the mutual fund investment choices. A $1.00 increase in the market price of the Company s common stock will result in approximately $0.5 million of additional compensation expense. A $1.00 reduction in the market price of the common stock will reduce compensation expense by a like amount. The expense or income associated with the mutual fund component will generally fluctuate in line with the overall percentage increase or decrease of the U.S. stock markets.

The mutual fund assets related to the deferred compensation plans are recorded on the Company s balance sheet at cost when acquired and adjusted to their market values at the end of each reporting period. As allowed by generally accepted accounting principles, the Company elected the fair value option for recording the mutual fund investment assets. Therefore, market value changes for the mutual fund investment assets are recorded in the income statement in the same periods that the offsetting changes in the deferred compensation liabilities are recorded. Dividends, capital gains distributed by the mutual funds, unrealized gains and losses and realized gains and losses from sales of mutual fund shares, are recognized as investment income or loss in the other, net line of the consolidated statements of income.

Environmental Liabilities

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

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

Revenue Recognition

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

Recent Accounting Pronouncements

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

FOREIGN CURRENCY EXCHANGE RISK

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

The Company uses forward contracts to mitigate the exposure of certain foreign currency transactions and balances to fluctuating exchange rates. At December 31, 2012, the Company had forward contracts to sell $9.4 million on behalf of subsidiaries in Canada, Mexico, and France. At year end the Company had forward contracts to buy $2.9 million on behalf of subsidiaries in Germany and the Philippines. The Company also had a forward

contract to sell EUR 3.0 million on behalf of its subsidiary in Poland. At December 31, 2012 the Company had a forward contract to purchase SGD 1.5 million on behalf of a subsidiary in Singapore where the functional currency is the U.S. dollar.

Periodically, the Company and its subsidiaries issue U.S. dollar and euro denominated trade receivables or loans to each other. Gains and losses on these transactions are included in income. Except for the Company s subsidiaries in Brazil, Colombia, and China, foreign currency exposures are essentially all covered by forward contracts. As of December 31, 2012, the Company had net receivables of $1.8 million due from its Brazilian subsidiary that were subject to exchange rate fluctuations. Hypothetical fluctuations of 10 percent in the exchange rate of the Brazilian real would result in a gain or loss of $0.2 million.

INTEREST RATES

The Company s debt was made up of fixed-rate and variable-rate borrowings totaling $155.8 million and $26.6 million, respectively, as of December 31, 2012. For 2013, it is projected that interest on short-term variable-rate borrowings will total approximately $1.1 million. A hypothetical 10 percent average change to short-term interest rates would result in a $0.1 million increase or decrease to interest expense for 2013.

The fair value of the Company s long term fixed-rate debt, including current maturities, was estimated to be $167.8 million as of December 31, 2012, which was approximately $12.0 million above the carrying value. Market risk was estimated as the potential increase to the fair value that would result from a hypothetical 10 percent decrease in the Company s weighted average long-term borrowing rates at December 31, 2012, or $3.2 million.

COMMODITY PRICE RISK

Certain raw materials used in the manufacture of the Company s products are subject to price volatility caused by weather, petroleum prices, general economic demand and other unpredictable factors. Increased raw material costs are recovered from customers as quickly as the marketplace allows; however, certain customers have arrangements that allow for price changes only on a quarterly basis, and competitive pressures sometimes prevent the recovery of cost increases from customers, particularly in periods where there is excess industry capacity. As a result, for some product lines or market segments it may take time to recover raw material price increases. Periodically, firm purchase commitments are entered into which fix the price of a specific commodity that will be delivered at a future time. Forward purchase contracts are used to aid in managing the Company s natural gas and electric costs. At December 31, 2012, the Company had open forward contracts for the purchase of 1.1 million dekatherms of natural gas at a cost of $4.2 million. Because the Company has agreed to fixed prices for the noted quantity of natural gas, a hypothetical 10 percent fluctuation in the price of natural gas would cause the Company s actual natural gas cost to be $0.4 million higher or lower than the cost at market price. Also at December 31, 2012, the Company had contracts to purchase approximately 14,000 megawatt hours of electricity at a cost of $1.0 million. Because the Company has agreed to fixed prices for the noted quantity of electricity, a hypothetical 10 percent fluctuation in the price of electricity would cause the Company s actual electric cost to be $0.1 million higher or lower than the cost at market price.

Item 8. Financial Statements and Supplementary Data

The following statements and data are included in this item:

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Consolidated Statements of Comprehensive Income (For years ended December 31, 2012, 2011 and 2010)	54
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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

Stepan Company

Northfield, Illinois

We have audited the accompanying consolidated balance sheets of Stepan Company and subsidiaries (the Company) as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on the financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Stepan Company and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2012, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2013 expressed an unqualified opinion on the Company s internal control over financial reporting.

/s/ Deloitte & Touche LLP
DELOITTE & TOUCHE LLP
Chicago, Illinois

February 27, 2013

Stepan Company

Consolidated Statements of Income

For the years ended December 31, 2012, 2011 and 2010

(In thousands, except per share amounts)	***2012***	*2011*	*2010*
Net Sales (Note 1)	**$ 1,803,737**	$ 1,843,092	$ 1,431,122
Cost of Sales	**1,512,184**	1,587,539	1,195,144
Gross Profit	**291,553**	255,553	235,978
Operating Expenses:			
Selling (Note 1)	**53,145**	45,807	40,273
Administrative (Note 1)	**63,979**	50,766	49,501
Research, development and technical services (Note 1)	**45,713**	40,524	38,307
	162,837	137,097	128,081
Operating Income	**128,716**	118,456	107,897
Other Income (Expense):			
Interest, net (Note 6)	**(9,599)**	(9,095)	(6,341)
Loss from equity in joint ventures (Note 1)	**(4,724)**	(3,616)	(1,663)
Other, net (Note 8)	**1,329**	(851)	1,586
	(12,994)	(13,562)	(6,418)
Income Before Provision for Income Taxes	**115,722**	104,894	101,479
Provision for Income Taxes (Note 9)	**36,035**	32,292	35,888
Net Income	**79,687**	72,602	65,591
Net Income Attributable to Noncontrolling Interests (Note 1)	**(291)**	(626)	(164)
Net Income Attributable to Stepan Company	**$ 79,396**	$ 71,976	$ 65,427
Net Income Per Common Share Attributable to Stepan Company (Note 18):			
Basic	**$ 3.71**	$ 3.44	$ 3.18
Diluted	**$ 3.49**	$ 3.21	$ 2.95
Shares Used to Compute Net Income Per Common Share Attributable to Stepan Company (Note 18):			
Basic	**21,273**	20,726	20,326
Diluted	**22,730**	22,440	22,180

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 Consolidated Financial Statements are an integral part of these statements.

Stepan Company

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2012, 2011 and 2010

(In thousands)	**2012**	2011	2010
Net Income	**$ 79,687**	$ 72,602	$ 65,591
Other Comprehensive Income (Loss):			
Foreign currency translation adjustments	**6,101**	(12,523)	2,585
Defined benefit pension plans:			
Net actuarial loss arising in period (net of taxes of $2,568, $3,617, $2,349 for 2012, 2011 and 2010, respectively)	**(5,387)**	(5,259)	(3,618)
Amortization of prior service cost included in pension expense (net of taxes of $5, $6, $6 for 2012, 2011 and 2010, respectively)	**13**	13	13
Amortization of actuarial loss included in pension expense (net of taxes of $1,371, $1,154, $866 for 2012, 2011 and 2010, respectively)	**2,261**	1,913	1,479
Amortization of transition obligation included in pension expense (net of taxes of $5, $8, $8 for 2012, 2011 and 2010, respectively)	**13**	19	19
Net defined benefit pension plan activity	**(3,100)**	(3,314)	(2,107)
Cash flow hedges:			
Gains (losses) arising in period (net of taxes of $16 in 2012 and $12 in 2011, respectively)	**116**	(1)	
Reclassifications to income in period (net of taxes of $8 in 2012)	**19**		
Net cash flow hedge activity	**135**	(1)	

Other Comprehensive Income (Loss)	**3,136**	(15,838)	478
Comprehensive Income	**82,823**	56,764	66,069
Less: Comprehensive Income Attributable to			
Noncontrolling Interests	**(389)**	(674)	(348)
Comprehensive Income Attributable to Stepan Company	**$ 82,434**	$ 56,090	$ 65,721

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

Stepan Company

Consolidated Balance Sheets

December 31, 2012 and 2011

(Dollars in thousands)	***2012***	*2011*
Assets		
Current Assets:		
Cash and cash equivalents	**$ 76,875**	$ 84,099
Receivables, less allowances of $5,533 in 2012 and $5,214 in 2011	**255,858**	260,784
Inventories (Note 5)	**162,013**	111,175
Deferred income taxes (Note 9)	**9,876**	8,769
Other current assets	**18,456**	14,915
Total current assets	**523,078**	479,742
Property, Plant and Equipment:		
Land	**11,942**	11,794
Buildings and improvements	**151,831**	143,910
Machinery and equipment	**969,603**	889,721
Construction in progress	**66,979**	74,472
	1,200,355	1,119,897
Less: accumulated depreciation	**778,333**	735,914
Property, plant and equipment, net	**422,022**	383,983
Goodwill, net (Note 4)	**7,199**	7,000
Other intangible assets, net (Note 4)	**8,778**	11,181
Long-term investments (Note 2)	**14,093**	12,464
Other non-current assets	**10,308**	6,748
Total assets	**$ 985,478**	$ 901,118
Liabilities and Equity		
Current Liabilities:		
Current maturities of long-term debt (Note 6)	**$ 32,838**	$ 34,487
Accounts payable	**141,668**	137,764
Accrued liabilities (Note 14)	**72,661**	60,975
Total current liabilities	**247,167**	233,226
Deferred income taxes (Note 9)	**9,200**	8,644
Long-term debt, less current maturities (Note 6)	**149,564**	164,967
Other non-current liabilities (Note 15)	**98,667**	88,816
Commitments and Contingencies (Note 16)		
Equity (Note 10):		
5 $^{1}/_{2}$ percent convertible preferred stock, cumulative, voting, without par value; authorized 2,000,000 shares; issued and outstanding 61,935 shares in 2012 and 518,293 shares in 2011	**1,548**	12,957
Common stock, $1 par value; authorized 30,000,000 shares; issued 25,141,610 shares in 2012 and 23,418,624 shares in 2011[(a)]	**25,142**	11,709

Additional paid-in capital	**125,003**	94,932
Accumulated other comprehensive loss (Note 1)	**(38,250)**	(41,485)
Retained earnings	**420,472**	366,293
Less: Common treasury stock, at cost, 3,175,638 shares in 2012 and 2,925,960 shares in 2011[a]	**(54,930)**	(43,195)
Total Stepan Company stockholders equity	**478,985**	401,211
Noncontrolling interests	**1,895**	4,254
Total equity	**480,880**	405,465
Total liabilities and equity	**$ 985,478**	$ 901,118

(a) Share amounts reflect the two-for-one common stock split that was effective December 14, 2012

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

Stepan Company

Consolidated Statements of Cash Flows

For the years ended December 31, 2012, 2011 and 2010

(In thousands)	***2012***	*2011*	*2010*
Cash Flows From Operating Activities			
Net income	**$ 79,687**	$ 72,602	$ 65,591
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**51,294**	47,099	40,351
Deferred compensation	**10,252**	1,529	5,020
Realized and unrealized (gain) loss on long-term investments	**(1,460)**	156	(1,367)
Stock-based compensation	**3,122**	3,676	3,789
Deferred income taxes	**134**	5,056	5,365
Other non-cash items	**2,755**	4,967	1,292
Changes in assets and liabilities, excluding effects of acquisitions:			
Receivables, net	**3,906**	(60,842)	(34,449)
Inventories	**(50,260)**	(12,854)	(16,975)
Other current assets	**(2,210)**	(2,246)	(576)
Accounts payable and accrued liabilities	**24,055**	25,901	7,409
Pension liabilities	**(4,341)**	(2,470)	(2,252)
Environmental and legal liabilities	**(66)**	(772)	(2,481)
Deferred revenues	**(662)**	(1,474)	(1,404)
Excess tax benefit from stock options and awards	**(7,237)**	(2,951)	(3,187)
Net Cash Provided By Operating Activities	**108,969**	77,377	66,126
Cash Flows From Investing Activities			
Expenditures for property, plant and equipment	**(83,159)**	(83,166)	(73,748)
Asset acquisition (Note 20)			(10,400)
Business acquisitions, net of cash acquired (Note 20)		(13,562)	(9,835)
Sale of mutual funds	**537**	1,615	780
Other, net	**(4,827)**	(6,274)	(4,051)
Net Cash Used In Investing Activities	**(87,449)**	(101,387)	(97,254)
Cash Flows From Financing Activities			
Revolving debt and bank overdrafts, net	**770**	223	16,849
Term loan		65,000	40,000
Build-to-suit obligation buyout		(12,206)	
Other debt borrowings		6,573	6,449
Other debt repayments	**(18,460)**	(52,454)	(10,427)
Dividends paid	**(12,757)**	(11,513)	(10,570)
Company stock repurchased	**(2,098)**	(1,508)	(4,906)
Stock option exercises	**4,473**	3,228	4,335
Excess tax benefit from stock options and awards	**7,237**	2,951	3,187
Other, net	**(8,640)**	(2,398)	(2,544)
Net Cash Provided By (Used In) Financing Activities	**(29,475)**	(2,104)	42,373
Effect of Exchange Rate Changes on Cash	**731**	(985)	1,435

Net Increase (Decrease) in Cash and Cash Equivalents	**(7,224)**	(27,099)	12,680
Cash and Cash Equivalents at Beginning of Year	**84,099**	111,198	98,518
Cash and Cash Equivalents at End of Year	**$ 76,875**	$ 84,099	$ 111,198
Supplemental Cash Flow Information			
Cash payments of income taxes, net of refunds	**$ 29,698**	$ 24,327	$ 25,091
Cash payments of interest	**$ 10,491**	$ 8,647	$ 6,630

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

Stepan Company

Consolidated Statements of Equity

For the years ended December 31, 2012, 2011 and 2010

(In thousands)		STEPAN COMPANY SHAREHOLDERS						
	Total	*Convertible Preferred Stock*	*Common Stock*	*Additional Paid-in Capital*	*Treasury Stock*	*Accumulated Other Comprehensive Income (Loss)*	*Retained Earnings*	*Noncontrolling Interest*
Balance, December 31, 2009	$ 290,427	$ 13,660	$ 22,458	$ 71,267	$ (31,951)	$ (25,893)	$ 250,973	$ 1,142
Issuance of 374,508 shares of common stock under stock option plan	5,006		187	4,819				
Acquisition of controlling interest in Stepan Philippines, Inc	2,090							2,090
Purchase of 250,070 shares of common stock	(7,155)				(7,155)			
Conversion of preferred stock to common stock		(688)	60	628				
Stock-based compensation	3,789		66	3,723				
Deferred compensation	228			228				
Net income	65,591						65,427	164
Other comprehensive income	478					294		184
Cash dividends paid:								
Preferred stock ($1.375 per share)	(747)						(747)	
Common stock ($0.49 per share)	(9,823)						(9,823)	
Non-qualified stock option and stock award income tax benefit	3,187			3,187				
Balance, December 31, 2010	$ 353,071	$ 13,002	$ 11,512	$ 83,852	$ (39,106)	$ (25,599)	$ 305,830	$ 3,580

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

Stepan Company

Consolidated Statements of Equity

For the years ended December 31, 2012, 2011 and 2010

(In thousands)	STEPAN COMPANY SHAREHOLDERS							
	Total	*Convertible Preferred Stock*	*Common Stock*	*Additional Paid-in Capital*	*Treasury Stock*	*Accumulated Other Comprehensive Income (Loss)*	*Retained Earnings*	*Noncontrolling Interest*
Balance, December 31, 2010	$ 353,071	$ 13,002	$ 11,512	$ 83,852	$ (39,106)	$ (25,599)	$ 305,830	$ 3,580
Issuance of 268,978 shares of common stock under stock option plan	3,796		134	3,662				
Purchase of 115,460 shares of common stock	(4,112)				(4,112)			
Conversion of preferred stock to common stock		(45)	2	43				
Stock-based compensation	3,676		54	3,622				
Deferred compensation	832		7	802	23			
Net income	72,602						71,976	626
Other comprehensive income	(15,838)					(15,886)		48
Cash dividends paid:								
Preferred stock ($1.375 per share)	(714)						(714)	
Common stock ($0.53 per share)	(10,799)						(10,799)	
Non-qualified stock option and stock award income tax benefit	2,951			2,951				
Balance, December 31, 2011	$ 405,465	$ 12,957	$ 11,709	$ 94,932	$ (43,195)	$ (41,485)	$ 366,293	$ 4,254

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

Stepan Company

Consolidated Statements of Equity

For the years ended December 31, 2012, 2011 and 2010

(In thousands)	STEPAN COMPANY SHAREHOLDERS							
	Total	*Convertible Preferred Stock*	*Common Stock*	*Additional Paid-in Capital*	*Treasury Stock*	*Accumulated Other Comprehensive Income (Loss)*	*Retained Earnings*	*Noncontrolling Interest*
Balance, December 31, 2011	$ 405,465	$ 12,957	$ 11,709	$ 94,932	$ (43,195)	$ (41,485)	$ 366,293	$ 4,254
Issuance of 582,730 shares of common stock under stock option plan	8,806		321	8,485				
Purchase of 251,312 shares of common stock	(11,759)				(11,759)			
Purchase of remaining interest in Stepan Philippines, Inc. from noncontrolling interest	(2,000)			551		197		(2,748)
Conversion of preferred stock to common stock		(11,409)	604	10,805				
Stock-based compensation	2,484		42	2,442				
Deferred compensation	581		6	551	24			
Net income	79,687						79,396	291
Other comprehensive income	3,136					3,038		98
Cash dividends paid:								
Preferred stock ($1.375 per share)	(579)						(579)	
Common stock ($0.58 per share)	(12,178)						(12,178)	
Non-qualified stock option and stock award income tax benefit	7,237			7,237				
Two-for-one stock split			12,460				(12,460)	
Balance, December 31, 2012	$ 480,880	$ 1,548	$ 25,142	$ 125,003	$ (54,930)	$ (38,250)	$ 420,472	$ 1,895

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 Consolidated Financial Statements are an integral part of these statements.

Notes to Consolidated Financial Statements

For the years ended December 31, 2012, 2011 and 2010

1. Summary of Significant Accounting Policies

Nature of Operations

Stepan Company (the Company) operations consist predominantly of the production and sale of specialty and intermediate chemicals, which are sold to other manufacturers for use in a variety of end products. Principal markets for all products are manufacturers of cleaning and washing compounds (including detergents, shamp