

STEPAN CO
Form 10-Q
October 30, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2013

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

Commission File Number 1-4462

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

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

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

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

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

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

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

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

| Class | Outstanding at October 24, 2013 |
|-----------------------------|--|
| Common Stock, \$1 par value | 22,318,652 Shares |

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

STEPAN COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Unaudited

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

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

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

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

STEPAN COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Unaudited

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

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

STEPAN COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS

Unaudited

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

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

(Note 15)

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

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

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

STEPAN COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

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

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

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

STEPAN COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2013