

STEPAN CO
Form 10-Q
May 05, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2011

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

1-4462

Commission File Number

STEPAN COMPANY

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)
Edens and Winnetka Road, Northfield, Illinois 60093
(Address of principal executive offices)

36-1823834
(I.R.S. Employer
Identification Number)

Registrant's telephone number (847) 446-7500

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

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

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

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

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

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

Class	Outstanding at April 29, 2011
Common Stock, \$1 par value	10,167,629 Shares

Part I

FINANCIAL INFORMATION

Item 1 - Financial Statements

STEPAN COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Unaudited

	Three Months Ended	
	March 31	
	2011	2010
<i>(In thousands, except per share amounts)</i>		
Net Sales	\$ 422,598	\$ 337,030
Cost of Sales	360,812	273,478
Gross Profit	61,786	63,552
Operating Expenses:		
Marketing	10,830	10,951
Administrative	10,874	9,063
Research, development and technical services	10,231	9,883
	31,935	29,897
Operating Income	29,851	33,655
Other Income (Expense):		
Interest, net	(2,063)	(1,256)
Loss from equity in joint ventures	(965)	(571)
Other, net (Note 13)	312	(222)
	(2,716)	(2,049)
Income Before Provision for Income Taxes	27,135	31,606
Provision for Income Taxes	8,319	10,925
Net Income	18,816	20,681
Net Income Attributable to Noncontrolling Interests (Note 2)	(55)	(21)
Net Income Attributable to Stepan Company	\$ 18,761	\$ 20,660
Net Income Per Common Share Attributable to Stepan Company (Note 9):		
Basic	\$ 1.80	\$ 2.03
Diluted	\$ 1.68	\$ 1.88
Shares Used to Compute Net Income Per Common Share Attributable to Stepan Company (Note 9):		
Basic	10,323	10,099

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Diluted	11,169	10,984
Dividends Declared Per Common Share	\$ 0.26	\$ 0.24

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>	March 31, 2011	December 31, 2010
Assets		
Current Assets:		
Cash and cash equivalents	\$ 52,743	\$ 111,198
Receivables, net	267,804	199,245
Inventories (Note 6)	119,239	96,552
Deferred income taxes	8,545	8,170
Other current assets	13,754	12,661
Total current assets	462,085	427,826
Property, Plant and Equipment:		
Cost	1,083,539	1,055,553
Accumulated depreciation	(716,749)	(701,968)
Property, plant and equipment, net	366,790	353,585
Goodwill, net	6,745	6,717
Other intangible assets, net	4,942	5,257
Long-term investments (Note 3)	11,437	11,904
Other non-current assets	6,119	6,142
Total assets	\$ 858,118	\$ 811,431
Liabilities and Stockholders Equity		
Current Liabilities:		
Current maturities of long-term debt (Note 12)	\$ 36,584	\$ 31,609
Accounts payable	153,519	115,248
Accrued liabilities	49,896	58,770
Total current liabilities	239,999	205,627
Deferred income taxes	7,002	5,154
Long-term debt, less current maturities (Note 12)	149,102	159,963
Other non-current liabilities	84,500	87,616
Commitments and Contingencies (Note 7)		
Stockholders Equity:		
5-1/2% convertible preferred stock, cumulative, voting, without par value; authorized 2,000,000 shares; issued and outstanding 520,089 shares in 2011 and 2010	13,002	13,002
Common stock, \$1 par value; authorized 30,000,000 shares; Issued 11,585,727 shares in 2011 and 11,511,829 shares in 2010	11,586	11,512
Additional paid-in capital	86,762	83,852

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Accumulated other comprehensive loss	(18,899)	(25,599)
Retained earnings	321,772	305,830
Treasury stock, at cost, 1,423,192 shares in 2011 and 1,406,081 shares in 2010	(40,357)	(39,106)
Total Stepan Company stockholders' equity	373,866	349,491
Noncontrolling interests (Note 2)	3,649	3,580
Total stockholders' equity	377,515	353,071
Total liabilities and stockholders' equity	\$ 858,118	\$ 811,431

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

STEPAN COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

<i>(In thousands)</i>	Three Months Ended March 31	
	2011	2010
Cash Flows From Operating Activities		
Net income	\$ 18,816	\$ 20,681
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,094	9,577
Deferred compensation	(380)	(1,801)
Realized and unrealized gain on long-term investments	(473)	(334)
Stock-based compensation	849	872
Deferred income taxes	1,654	1,948
Other non-cash items	(25)	544
Changes in assets and liabilities:		
Receivables, net	(63,910)	(38,353)
Inventories	(21,027)	(11,237)
Other current assets	(983)	(583)
Accounts payable and accrued liabilities	31,044	16,611
Pension liabilities	(408)	(90)
Environmental and legal liabilities	(197)	(339)
Deferred revenues	(463)	(295)
Excess tax benefit from stock options and awards	(1,036)	(513)
Net Cash Used In Operating Activities	(25,445)	(3,312)
Cash Flows From Investing Activities		
Expenditures for property, plant and equipment	(22,478)	(12,980)
Sale of mutual funds	1,487	701
Other, net	(1,704)	(595)
Net Cash Used In Investing Activities	(22,695)	(12,874)
Cash Flows From Financing Activities		
Revolving debt and bank overdrafts, net	4,004	
Build-to-suit obligation buyout	(12,206)	
Other debt repayments	(385)	(997)
Dividends paid	(2,819)	(2,571)
Company stock repurchased		(3,750)
Stock option exercises	624	116
Excess tax benefit from stock options and awards	1,036	513
Other, net	(1,293)	(1,068)
Net Cash Used in Financing Activities	(11,039)	(7,757)
Effect of Exchange Rate Changes on Cash	724	852
Net Decrease in Cash and Cash Equivalents	(58,455)	(23,091)
Cash and Cash Equivalents at Beginning of Period	111,198	98,518

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Cash and Cash Equivalents at End of Period	\$ 52,743	\$ 75,427
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Supplemental Cash Flow Information

Cash payments of income taxes, net of refunds	\$ 2,418	\$ 3,102
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Cash payments of interest	\$ 1,084	\$ 1,044
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The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these financial statements.

STEPAN COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

Unaudited

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements included herein have been prepared by Stepan Company (Company), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations, although management believes that the disclosures are adequate and make the information presented not misleading. In the opinion of management, all adjustments, consisting only of normal recurring accruals, necessary to present fairly the Company's financial position as of March 31, 2011 and its results of operations and cash flows for the three months ended March 31, 2011 and 2010, have been included. These financial statements and related footnotes should be read in conjunction with the financial statements and related footnotes included in the Company's 2010 Form 10-K.

2. RECONCILIATIONS OF EQUITY

Below are reconciliations of total equity, Company equity and equity attributable to the noncontrolling interests for the three months ended March 31, 2011 and 2010:

<i>(In thousands)</i>	Total Equity	Stepan Company Equity	Noncontrolling Interests Equity ⁽³⁾
Balance at January 1, 2011			