STEPAN CO
Form 10-Q
April 29, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2016

o 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)

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 x No o

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 o

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 o No x

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 20, 2016
Common Stock, $1 par value	22,321,564 Shares

Part I FINANCIAL INFORMATION

Item 1 - Financial Statements

STEPAN COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Unaudited

(In thousands, except per share amounts)	Three Months Ended March 31 2016	2015
Net Sales	$445,897	$460,451
Cost of Sales	352,398	384,009
Gross Profit	93,499	76,442
Operating Expenses:		
Selling	13,690	12,997
Administrative [(a)]	18,700	17,762
Research, development and technical services	13,782	11,790
Deferred compensation expense [(a)]	2,720	1,577
	48,892	44,126
Gain on sale of product line	—	2,862
Operating Income	44,607	35,178
Other Income (Expense):		
Interest, net	(3,614)	(4,054)
Loss from equity in joint ventures (Note 15)	—	(1,240)
Other, net (Note 13)	(525)	652
	(4,139)	(4,642)
Income Before Provision for Income Taxes	40,468	30,536
Provision for Income Taxes	12,811	9,250
Net Income	27,657	21,286
Net Income Attributable to Noncontrolling Interests (Note 2)	(3)	(16)
Net Income Attributable to Stepan Company	$27,654	$21,270
Net Income Per Common Share Attributable to Stepan Company (Note 9):		
Basic	$1.22	$0.94
Diluted	$1.21	$0.93
Shares Used to Compute Net Income Per Common Share Attributable to Stepan Company (Note 9):		
Basic	22,733	22,718
Diluted	22,882	22,827

Dividends Declared Per Common Share	$0.19	$0.18

(a) In the first quarter of 2015, deferred compensation expense was included in administrative expenses. The 2015 amounts have been classified separately to conform to the current year presentation.

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

(In thousands)	Three Months Ended March 31	
	2016	2015
Net income	$27,657	$21,286
Other comprehensive income (loss):		
Foreign currency translation adjustments (Note 10)	12,590	(25,152)
Defined benefit pension adjustments, net of tax (Note 10)	564	749
Derivative instrument activity, net of tax (Note 10)	(21)	(42)
Total other comprehensive income (loss)	13,133	(24,445)
Comprehensive income (loss)	40,790	(3,159)
Comprehensive income attributable to noncontrolling interests (Note 2)	(14)	(1)
Comprehensive income (loss) attributable to Stepan Company	$40,776	$(3,160)

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

STEPAN COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

Unaudited

(In thousands)	March 31, 2016	December 31, 2015
Assets		
Current Assets:		
Cash and cash equivalents	$145,669	$176,143
Receivables, net	291,635	249,602
Inventories (Note 6)	177,787	170,424
Other current assets	24,035	23,404
Total current assets	639,126	619,573
Property, Plant and Equipment:		
Cost	1,469,307	1,446,098
Less: accumulated depreciation	(910,590)	(890,635)
Property, plant and equipment, net	558,717	555,463
Goodwill, net	11,366	11,265
Other intangible assets, net	17,272	17,957
Long-term investments (Note 3)	20,787	20,910
Other non-current assets (Note 16)	12,689	13,224
Total assets	$1,259,957	$1,238,392
Liabilities and Equity		
Current Liabilities:		
Current maturities of long-term debt (Note 12)	$15,277	$18,806
Accounts payable	129,963	128,605
Accrued liabilities	76,109	95,833
Total current liabilities	221,349	243,244
Deferred income taxes	11,828	9,455
Long-term debt, less current maturities (Notes 12 and 16)	312,573	312,548
Other non-current liabilities	117,964	114,761
Commitments and Contingencies (Note 7)		
Equity:		
Common stock, $1 par value; authorized 60,000,000 shares;		
Issued 25,733,795 shares in 2016 and 25,709,391 shares in 2015	25,734	25,709
Additional paid-in capital	146,874	144,601
Accumulated other comprehensive loss (Note 10)	(111,966)	(125,088)
Retained earnings	603,625	580,208
Less: Common treasury stock, at cost,3,444,231 shares in 2016		
and 3,428,541 shares in 2015	(69,438)	(68,446)
Total Stepan Company stockholders' equity	594,829	556,984
Noncontrolling interests (Note 2)	1,414	1,400
Total equity	596,243	558,384

Total liabilities and equity	$1,259,957	$1,238,392

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

(In thousands)	Three Months Ended March 31 2016	2015
Cash Flows From Operating Activities		
Net income	$27,657	$21,286
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,070	16,127
Deferred compensation	2,720	1,577
Realized and unrealized (gains) losses on long-term investments	306	(531)
Stock-based compensation	2,423	798
Deferred income taxes	2,683	(1,261)
Other non-cash items	282	(1,397)
Changes in assets and liabilities:		
Receivables, net	(36,263)	(11,546)
Inventories	(5,274)	4,969
Other current assets	(315)	(1,703)
Accounts payable and accrued liabilities	(14,846)	5,647
Pension liabilities	156	111
Environmental and legal liabilities	837	90
Deferred revenues	(282)	(195)
Excess tax benefit from stock options and awards	(262)	(120)
Net Cash (Used In) Provided By Operating Activities	(2,108)	33,852
Cash Flows From Investing Activities		
Expenditures for property, plant and equipment	(19,340)	(28,295)
Proceeds from sale of product line (Note14)	—	3,262
Other, net	(3,119)	(73)
Net Cash Used In Investing Activities	(22,459)	(25,106)
Cash Flows From Financing Activities		
Revolving debt and bank overdrafts, net	(3,588)	14,241
Other debt repayments	(159)	(2,063)
Dividends paid	(4,237)	(4,047)
Company stock repurchased	(908)	—
Stock option exercises	258	167
Excess tax benefit from stock options and awards	262	120
Other, net	(235)	(275)
Net Cash (Used In) Provided By Financing Activities	(8,607)	8,143
Effect of Exchange Rate Changes on Cash	2,700	(4,796)
Net Increase (Decrease) in Cash and Cash Equivalents	(30,474)	12,093
Cash and Cash Equivalents at Beginning of Period	176,143	85,215

Cash and Cash Equivalents at End of Period	$145,669	$97,308
Supplemental Cash Flow Information		
Cash (refunds) of income taxes, net of payments	$(733)	$(2,920)
Cash payments of interest	$2,124	$435

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

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STEPAN COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

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 (U.S. GAAP) 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, 2016, and its results of operations for the three months ended March 31, 2016 and 2015, and cash flows for the three months ended March 31, 2016 and 2015, 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 2015 Form 10-K.

2. RECONCILIATIONS OF EQUITY

Below are reconciliations of total equity, Company equity and equity attributable to noncontrolling interests for the three months ended March 31, 2016 and 2015:

(In thousands)	Total Equity	Stepan Company Equity	Noncontrolling Interests' Equity (3)
Balance at January 1, 2016	$558,384	$556,984	$ 1,400
Net income	27,657	27,654	3
Dividends	(4,237)	(4,237)	—
Common stock purchases (1)	(1,143)	(1,143)	—
Stock option exercises	258	258	—
Defined benefit pension adjustments, net of tax	564	564	—
Translation adjustments	12,590	12,579	11
Derivative instrument activity, net of tax	(21)	(21)	—
Other (2)	2,191	2,191	—
Balance at March 31, 2016	$596,243	$594,829	$ 1,414

(In thousands)	Total Equity	Stepan Company Equity	Noncontrolling Interests' Equity [3]
Balance at January 1, 2015	$536,944	$535,546	$ 1,398
Net income	21,286	21,270	16
Dividends	(4,047)	(4,047)	—
Common stock purchases [1]	(273)	(273)	—
Stock option exercises	167	167	—
Defined benefit pension adjustments, net of tax	749	749	—
Translation adjustments	(25,152)	(25,137)	(15)
Derivative instrument activity, net of tax	(42)	(42)	—
Other [2]	846	846	—
Balance at March 31, 2015	$530,478	$529,079	$ 1,399

(1) Includes the value of Company shares purchased in the open market and the value of Company common shares tendered by employees to settle minimum statutory withholding taxes related to distributions of deferred performance awards and deferred incentive compensation.

(2) Primarily comprised of activity related to stock-based compensation, deferred compensation and excess tax benefits.

(3) Reflects the noncontrolling interest in the Company's China joint venture.

3. FAIR VALUE MEASUREMENTS

The following were the financial instruments held by the Company at March 31, 2016, and December 31, 2015, and the methods and assumptions used to estimate the instruments' fair values:

Cash and cash equivalents

Carrying value approximated fair value because of the short maturity of the instruments.

Derivative assets and liabilities

Derivative assets and liabilities included the foreign currency exchange and interest rate contracts discussed in Note 4. Fair value and carrying value were the same because the contracts were recorded at fair value. The fair values of the foreign currency contracts were calculated as the difference between the applicable forward foreign exchange rates at the reporting date and the contracted foreign exchange rates multiplied by the contracted notional amounts. The fair values of the interest rate swaps were calculated as the difference between the contracted swap rate and the current market replacement swap rate multiplied by the present value of one basis point for the notional amount of the contract. See the table that follows the financial instrument descriptions for the reported fair values of derivative assets and liabilities.

Long-term investments

Long-term investments included the mutual fund assets the Company held to fund a portion of its deferred compensation liabilities and all of its non-qualified supplemental executive defined contribution obligations (see the defined contribution plans section of Note 8). Fair value and carrying value were the same because the mutual fund assets were recorded at fair value in accordance with the FASB's fair value option rules. Fair values for the mutual funds were calculated using the published market price per unit at the reporting date multiplied by the number of units held at the reporting date. See the table that follows the financial instrument descriptions for the reported fair value of long-term investments.

Debt obligations

The fair value of debt with original maturities greater than one year comprised the combined present values of scheduled principal and interest payments for each of the various loans, individually discounted at rates equivalent to those which could be obtained by the Company for new debt issues with durations equal to the average life to maturity of each loan. The fair values of the remaining Company debt obligations approximated their carrying values due to the short-term nature of the debt. The Company's fair value measurements for debt fall within level 2 of the fair value hierarchy.

At March 31, 2016, and December 31, 2015, the fair values and related carrying values of debt, including current maturities, were as follows (the fair value and carrying value amounts are shown without regard to unamortized issuance costs):

(In thousands)	March 31, 2016	December 31, 2015
Fair value	$337,472	$331,183
Carrying value	329,081	332,623

The following tables present financial assets and liabilities measured on a recurring basis at fair value as of March 31, 2016, and December 31, 2015, and the level within the fair value hierarchy in which the fair value measurements fall:

(In thousands)	March 2016	Level 1	Level 2	Level 3
Mutual fund assets	$20,787	$20,787	$—	$ —
Derivative assets:				
Foreign currency contracts	582	—	582	—
Total assets at fair value	$21,369	$20,787	$582	$ —
Derivative liabilities:				
Foreign currency contracts	$95	$—	$95	$ —
Interest rate contracts	81	—	81	—
Total liabilities at fair value	$176	$—	$176	$ —

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(In thousands)	December 2015	Level 1	Level 2	Level 3
Mutual fund assets	$ 20,910	$20,910	$—	$ —
Derivative assets:				
Foreign currency contracts	112	—	112	—
Total assets at fair value	$ 21,022	$20,910	$112	$ —
Derivative liabilities :				
Foreign currency contracts	$ 305	$—	$305	$ —
Interest rate contracts	53	—	53	—
Total liabilities at fair value	$ 358	$—	$358	$ —

4. DERIVATIVE INSTRUMENTS

The Company is exposed to certain risks relating to its ongoing business operations. The primary risk managed by the use of derivative instruments is foreign currency exchange risk. The Company holds forward foreign currency exchange contracts that are not designated as any type of accounting hedge as defined by U.S. GAAP. The Company uses these contracts to manage its exposure to exchange rate fluctuations on certain Company subsidiary cash, accounts receivable, accounts payable and other obligation balances that are denominated in currencies other than the entities' functional currencies. The forward foreign exchange contracts are recognized on the balance sheet as either an asset or a liability measured at fair value. Gains and losses arising from recording the foreign exchange contracts at fair value are reported in earnings as offsets to the losses and gains reported in earnings arising from the re-measurement of the asset and liability balances into the applicable functional currencies. At March 31, 2016, and December 31, 2015, the Company had open forward foreign currency exchange contracts, all with settlement dates of about one month, to buy or sell foreign currencies with U.S. dollar equivalent amounts of $29,703,000 and $31,194,000, respectively.

The Company is exposed to volatility in short-term interest rates and mitigates certain portions of that risk by using interest rate swaps. The interest rate swaps are recognized on the balance sheet as either an asset or a liability measured at fair value. The Company held interest rate swap contracts with notional values of $3,740,000 at March 31, 2016, and $3,724,000 and December 31, 2015. The contracts were designated as cash flow hedges. Period-to-period changes in the fair values of interest rate swap contracts are recognized as gains or losses in other comprehensive income, to the extent effective. As each interest rate swap hedge contract is settled, the corresponding gain or loss is reclassified out of accumulated other comprehensive income (AOCI) into earnings in that settlement period. The latest date through which the Company expects to hedge its exposure to the volatility of short-term interest rates is December 1, 2021.

The fair values of the derivative instruments held by the Company on March 31, 2016, and December 31, 2015, and derivative instrument gains and losses for the three-month periods ended March 31, 2016 and 2015, were immaterial. For amounts reclassified out of AOCI into earnings for the three-month periods ended March 31, 2016 and 2015, see Note 10.

5. STOCK-BASED COMPENSATION

On March 31, 2016, the Company had stock options and stock awards outstanding under its 2006 Incentive Compensation Plan and stock options, stock awards and stock appreciation rights (SARs) outstanding under its 2011

Incentive Compensation Plan.

Compensation expense recorded for all stock options, stock awards and SARs was as follows:

(In thousands) Three Months Ended March 31	
2016	2015
$2,423	$798

The year-over-year increase in stock-based compensation expense was primarily attributable to increases in compensation related to cash-settled SARs and performance awards. SARs compensation expense increased due to increases in the fair values of cash-settled SARs that resulted from higher quarter-over-quarter appreciation in the value of Company common stock. Performance award stock-based compensation expense was up between years as the result of management’s assessment that the profitability performance metrics for certain grants would be achieved at greater levels than previously estimated.

Unrecognized compensation costs for stock options, stock awards and SARs were as follows:

(In thousands)	March 31, 2016	December 31, 2015
Stock options	$ 1,839	$ 784
Stock awards	6,545	3,396
SARs	4,048	1,644

The increases in unrecognized compensation costs for stock options, stock awards and SARs reflected the 2016 grants of:

	Shares
Stock options	99,730
Stock awards (at target)	72,997
SARs	218,660

The unrecognized compensation costs at March 31, 2016, are expected to be recognized over weighted-average periods of 1.6 years, 2.3 years and 1.6 years for stock options, stock awards and SARs, respectively.

6. INVENTORIES

The composition of inventories at March 31, 2016, and December 31, 2015, was as follows:

(In thousands)	March 31, 2016	December 31, 2015
Finished goods	$127,698	$ 124,481
Raw materials	50,089	45,943
Total inventories	$177,787	$ 170,424

Inventories are priced primarily using the last-in, first-out inventory valuation method. If the first-in, first-out inventory valuation method had been used for all inventories, inventory balances would have been approximately $20,723,000 and $18,171,000 higher than reported at March 31, 2016, and December 31, 2015, respectively.

7. CONTINGENCIES

There are a variety of legal proceedings pending or threatened against the Company. 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 related to or has been named by the government as a potentially responsible party (PRP) 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 these sites.

As of March 31, 2016, the Company estimated a range of possible environmental and legal losses of \$21.8 million to \$42.4 million. At March 31, 2016, and December 31, 2015, 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 \$21.8 million and \$20.9 million, respectively. Cash outlays related to legal and environmental matters approximated \$0.3 million for each of the three-month periods ended March 31, 2016 and 2015.

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.

Following are summaries of the material contingencies at March 31, 2016:

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 on September 24, 2014, USEPA issued its Record of Decision (ROD) for chemically-contaminated soil. USEPA has not yet issued a ROD for chemically-contaminated groundwater for the Maywood site. Based on the most current information available, the Company believes its recorded liability represents its best estimate of the cost of remediation for the Maywood site. The best estimate of the cost of remediation for the Maywood site could change as the Company continues to hold discussions with USEPA, as the design of the remedial action progresses or if other PRPs are identified. The ultimate amount for which the Company is liable could differ from the Company's current recorded liability.

In April 2015, the Company entered into an Administrative Settlement Agreement and Administrative Order on Consent with USEPA which requires payment of certain costs and performance of certain investigative and design work for chemically-contaminated soil. Based on the Company's review and analysis of this order, no changes to the Company's current recorded liability for claims associated with soil remediation of chemical contamination were required.

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 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 2016, the PRPs were provided with updated 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 $2.4 million for the Company's portion of environmental response costs. The Company has recorded a liability for its portion of the estimated remediation costs for the site. 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.

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 for the claims 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.

Mexico Value-Added Tax

In the first quarter of 2015, during an examination of the Company's 2009 and 2010 Mexico subsidiary financial records, local tax authority auditors determined that the Company's treatment of value-added tax (VAT) for purchase transactions with a certain vendor was incorrect. As a result, the tax authorities concluded that the Company owed past VAT from 2009 -2010 along with assessed inflation, penalty and interest charges. Consequently, the Company recorded a liability and corresponding income statement charge for the VAT inflation, penalty and interest charges. The liability included the 2009 – 2010 assessment of inflation, penalty and interest charges plus an estimated amount for the potential exposure for 2011 – 2014. The amount recorded was not material to the Company's results of operations. No charge was recorded for the past unpaid VAT because the Company believes the amount will be recoverable through the normal VAT process. No exposure for years after 2014 exists as the Company remedied the underlying issue that led to the tax authorities' determination. In February 2016, the Company reached agreement with Mexico's tax authorities on the amount of inflation, penalty and interest charged for the 2009 and 2010 years under audit. No significant adjustments were required to the previously recorded liability. Depending on the outcomes of future negotiations with Mexico's tax authorities regarding the years 2011- 2014 and the actual amount of the past VAT that is recovered by the Company, the final actual settlement could differ from the current recorded liability.

8. POSTRETIREMENT BENEFIT PLANS

Defined Benefit Pension Plans

The Company sponsors various funded qualified and unfunded non-qualified defined benefit pension plans, the most significant of which cover employees in the U.S. and U.K. locations. The U.S. and U.K. defined benefit pension plans are frozen and service benefits are no longer being accrued.

Components of Net Periodic Benefit Cost

	UNITED STATES Three Months Ended		UNITED KINGDOM Three Months Ended	
(In thousands)	March 31		March 31	
	2016	2015	2016	2015
Interest cost	$ 1,729	$ 1,701	$ 193	$ 195
Expected return on plan assets	(2,254)	(2,393)	(238)	(262)
Amortization of net actuarial loss	882	1,149	20	45
Net periodic benefit cost	$ 357	$ 457	$ (25)	$ (22)

Employer Contributions

U.S. Plans

As a result of pension funding relief provisions included in the Highway and Transportation Funding Act of 2014, the Company expects to make no 2016 contributions to the funded U.S. qualified defined benefit plans. Approximately $178,000 is expected to be paid related to the unfunded non-qualified plans. As of March 31, 2016, $110,000 had been paid related to the non-qualified plans.

U.K. Plan

The Company's United Kingdom subsidiary expects to contribute approximately $361,000 to its defined benefit pension plan in 2016. As of March 31, 2016, $88,000 had been contributed to the plan.

Defined Contribution Plans

The Company sponsors retirement savings defined contribution plans that cover U.S. and U.K. employees. The Company also sponsors a qualified profit sharing plan for its U.S. employees. The retirement savings and profit sharing defined contribution plans include a qualified plan and a non-qualified supplemental executive plan.

Defined contribution plan expenses for the Company's retirement savings and profit sharing plans were as follows:

(In thousands)	Three Months Ended March 31 2016	2015
Retirement savings plans	$1,291	$1,184
Profit sharing plan	1,717	980
Total defined contribution expense	$3,008	$2,164

The Company funds the obligations of its non-qualified supplemental executive defined contribution plans (supplemental plans) through a rabbi trust. The trust comprises various mutual fund investments selected by the participants of the supplemental plans. In accordance with the accounting guidance for rabbi trust arrangements, the assets of the trust and the obligations of the supplemental plans are reported on the Company's consolidated balance sheets. The Company elected the fair value option for the mutual fund investment assets so that offsetting changes in the mutual fund values and defined contribution plan obligations would be recorded in earnings in the same period. Therefore, the mutual funds are reported at fair value with any subsequent changes in fair value recorded in the consolidated statements of income. The liabilities related to the supplemental plans increase (i.e., supplemental plan expense is recognized) when the value of the trust assets appreciates and decrease when the value of the trust assets declines (i.e., supplemental plan income is recognized). At March 31, 2016, the balance of the trust assets was $1,815,000, which equaled the balance of the supplemental plan liabilities (see the long-term investments section in Note 3 for further information regarding the Company's mutual fund assets).

9. EARNINGS PER SHARE

Below are the computations of basic and diluted earnings per share for the three months ended March 31, 2016 and 2015:

(In thousands, except per share amounts)	Three Months Ended March 31 2016	2015
Computation of Basic Earnings per Share		
Net income attributable to Stepan Company	$27,654	$21,270
Weighted-average number of common shares outstanding	22,733	22,718
Basic earnings per share	$1.22	$0.94
Computation of Diluted Earnings per Share		
Net income attributable to Stepan Company	$27,654	$21,270
Weighted-average number of shares outstanding	22,733	22,718
Add weighted-average net shares from assumed	113	104

exercise of options (under treasury stock method) [(1)]		
Add weighted-average net shares related to unvested stock awards (under treasury stock method)	4	5
Add weighted-average net shares from assumed exercise of SARs (under treasury stock method)	8	—