

STEPAN CO
Form 10-Q
October 29, 2009

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, 2009

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)

36-1823834
(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 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 27, 2009
Common Stock, \$1 par value	9,902,810 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 September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Net Sales	\$ 326,225	\$ 432,947	\$ 965,567	\$ 1,234,797
Cost of Sales	257,294	390,162	782,283	1,096,153
Gross Profit	68,931	42,785	183,284	138,644
Operating Expenses:				
Marketing	10,179	11,290	29,242	31,470
Administrative	16,449	11,776	36,683	35,716
Research, development and technical services	8,650	9,293	26,349	26,567
Sale of land (Note 15)		(8,469)		(8,469)
Sale of product line (Note 14)		(9,929)		(9,929)
	35,278	13,961	92,274	75,355
Operating Income	33,653	28,824	91,010	63,289
Other Income (Expense):				
Interest, net	(1,508)	(2,447)	(4,935)	(7,367)
Loss from equity in joint ventures	(2,398)	(1,368)	(3,491)	(2,245)
Other, net (Note 13)	684	(599)	1,725	(1,960)
	(3,222)	(4,414)	(6,701)	(11,572)
Income Before Provision for Income Taxes	30,431	24,410	84,309	51,717
Provision for Income Taxes	10,843	7,379	30,003	16,205
Net Income	19,588	17,031	54,306	35,512
Less: Net Income Attributable to the Noncontrolling Interest (Note 2)	(43)	(31)	(24)	(4)
Net Income Attributable to Stepan Company	\$ 19,545	\$ 17,000	\$ 54,282	\$ 35,508
Net Income Per Common Share Attributable to Stepan Company (Note 9):				
Basic	\$ 1.96	\$ 1.75	\$ 5.47	\$ 3.67
Diluted	\$ 1.80	\$ 1.59	\$ 5.06	\$ 3.39

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Shares Used to Compute Net Income Per Common Share Attributable to Stepan Company (Note 9):

Basic	9,880	9,628	9,815	9,521
Diluted	10,871	10,694	10,718	10,468
Dividends per Common Share	\$ 0.2200	\$ 0.2100	\$ 0.6600	\$ 0.6300

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

STEPAN COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS

Unaudited

<i>(Dollars in thousands)</i>	September 30, 2009	December 31, 2008
Assets		
Current Assets:		
Cash and cash equivalents	\$ 72,929	\$ 8,258
Restricted cash (Note 15)		8,477
Receivables, net	182,537	188,444
Inventories (Note 6)	82,193	103,243
Deferred income taxes	11,059	10,552
Other current assets	10,654	9,449
Total current assets	359,372	328,423
Property, Plant and Equipment:		
Cost	922,256	911,251
Less: Accumulated depreciation	(679,437)	(673,085)
Property, plant and equipment, net	242,819	238,166
Goodwill, net	4,494	4,410
Other intangible assets, net	5,302	6,307
Long-term investments (Note 4)	9,712	11,351
Other non-current assets	15,812	23,240
Total assets	\$ 637,511	\$ 611,897
Liabilities and Stockholders Equity		
Current Liabilities:		
Current maturities of long-term debt (Note 12)	\$ 10,791	\$ 38,264
Accounts payable	100,436	117,247
Accrued liabilities	60,216	56,624
Total current liabilities	171,443	212,135
Deferred income taxes	1,244	2,137
Long-term debt, less current maturities (Note 12)	99,475	104,725
Other non-current liabilities	85,533	83,667
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 546,396 shares in 2009 and 550,448 shares in 2008	13,660	13,761
Common stock, \$1 par value; authorized 30,000,000 shares; issued 11,159,819 shares in 2009 and 10,840,946 shares in 2008	11,160	10,841

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Additional paid-in capital	67,484	54,712
Accumulated other comprehensive loss	(27,167)	(40,525)
Retained earnings (unrestricted approximately \$91,417 in 2009 and \$59,433 in 2008)	244,776	197,481
Less: Treasury stock, at cost, 1,268,645 shares in 2009 and 1,208,857 shares in 2008	(31,208)	(28,126)
Total Stepan Company stockholders' equity	278,705	208,144
Noncontrolling interest	1,111	1,089
Total stockholders' equity	279,816	209,233
Total liabilities and stockholders' equity	\$ 637,511	\$ 611,897

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>(Dollars in thousands)</i>	Nine Months Ended September 30	
	2009	2008
Cash Flows From Operating Activities		
Net income	\$ 54,306	\$ 35,512
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	27,296	28,039
Deferred compensation	5,145	4,385
Realized / unrealized (gain) loss on long-term investments	(1,423)	2,703
Stock-based compensation	3,503	3,856
Deferred income taxes	3,656	4,683
Gain on sale of product line		(9,929)
Sale of land		(8,469)
Other non-cash items	5,527	2,243
Changes in assets and liabilities:		
Receivables, net	11,477	(62,308)
Inventories	24,364	(22,218)
Other current assets	(569)	(945)
Accounts payable and accrued liabilities	(7,566)	30,143
Pension liabilities	(2,843)	141
Environmental and legal liabilities	(54)	(571)
Deferred revenues	(726)	(1,145)
Excess tax benefit from stock options and awards	(2,179)	(2,843)
Net Cash Provided By Operating Activities	119,914	3,277