

STEPAN CO  
Form 10-Q  
July 30, 2008

**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 JUNE 30, 2008**

**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 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 July 30, 2008
Common Stock, \$1 par value	9,483,266 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 June 30		Six Months Ended June 30	
	2008	2007	2008	2007
<b>Net Sales</b>	\$ 420,399	\$ 336,156	\$ 801,850	\$ 649,160
Cost of Sales	370,398	297,882	705,991	576,077
<b>Gross Profit</b>	50,001	38,274	95,859	73,083
Operating Expenses:				
Marketing	10,400	9,109	20,180	18,041
Administrative	13,156	11,515	23,940	19,231
Research, development and technical services	8,858	7,954	17,274	15,583
	32,414	28,578	61,394	52,855
Gain on sale of product line (Note 11)		(4,290)		(4,290)
Goodwill impairment charge (Note 12)		3,467		3,467
<b>Operating Income</b>	17,587	10,519	34,465	21,051
Other Income (Expenses):				
Interest, net	(2,573)	(2,515)	(4,920)	(4,823)
Loss from equity in joint venture	(600)	(10)	(877)	(136)
Other, net (Note 15)	96	(535)	(1,361)	(553)
	(3,077)	(3,060)	(7,158)	(5,512)
<b>Income Before Provision for Income Taxes and Minority Interest</b>	14,510	7,459	27,307	15,539
Provision for Income Taxes	4,759	2,805	8,826	5,199
Minority Interest	(10)	(83)	(27)	(84)
<b>Net Income</b>	\$ 9,761	\$ 4,737	\$ 18,508	\$ 10,424
Net Income Per Common Share (Note 9):				
Basic	\$ 1.00	\$ 0.49	\$ 1.91	\$ 1.08
Diluted	\$ 0.93	\$ 0.47	\$ 1.79	\$ 1.03
Shares Used to Compute Net Income Per Common Share (Note 9):				
Basic	9,526	9,304	9,465	9,298
Diluted	10,463	10,085	10,352	10,079
Dividends per Common Share	\$ 0.2100	\$ 0.2050	\$ 0.4200	\$ 0.4100

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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>	June 30, 2008	December 31, 2007
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 6,596	\$ 5,739
Receivables, net	244,103	184,277
Inventories (Note 6)	116,497	86,344
Deferred income taxes	9,858	8,855
Other current assets	12,991	8,717
Total current assets	390,045	293,932
<b>Property, Plant and Equipment:</b>		
Cost	921,917	908,843
Less: accumulated depreciation	685,584	674,781
Property, plant and equipment, net	236,333	234,062
Goodwill, net	4,536	4,543
Other intangible assets, net	6,248	6,687
Long-term investments (Note 3)	13,672	14,803
Other non-current assets	18,996	19,158
Total assets	\$ 669,830	\$ 573,185
<b>Liabilities and Stockholders Equity</b>		
<b>Current Liabilities:</b>		
Current maturities of long-term debt (Note 14)	\$ 28,136	\$ 31,024
Accounts payable	151,610	125,071
Accrued liabilities	45,334	44,883
Total current liabilities	225,080	200,978
Deferred income taxes	5,583	3,680
Long-term debt, less current maturities (Note 14)	138,489	96,939
Other non-current liabilities	68,137	64,861
<b>Commitments and Contingencies (Note 7)</b>		
Minority Interest	952	676
<b>Stockholders Equity:</b>		
5-1/2% convertible preferred stock, cumulative, voting without par value; authorized 2,000,000 shares; issued and outstanding 558,923 shares in 2008 and 567,754 shares in 2007	13,973	14,194
	10,660	10,457

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Common stock, \$1 par value; authorized 30,000,000 shares; Issued 10,659,878 shares in 2008 and 10,457,185 shares in 2007		
Additional paid-in capital	47,252	37,618
Accumulated other comprehensive income	2,626	245
Retained earnings (unrestricted approximately \$47,360 in 2008 and \$38,187 in 2007) (Note 2)	183,338	168,338
Less: Treasury stock, at cost 1,177,962 shares in 2008 and 1,148,031 in 2007	(26,260)	(24,801)
Stockholders' equity	231,589	206,051
Total liabilities and stockholders' equity	\$ 669,830	\$ 573,185

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>	Six Months Ended June 30	
	2008	2007
<b>Cash Flows From Operating Activities</b>		
Net income	\$ 18,508	\$ 10,424
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,983	19,035
Deferred compensation	3,140	632
Unrealized loss on long-term investments	1,117	
Stock-based compensation	2,654	483
Deferred income taxes	2,140	835
Goodwill impairment charge		3,467
Gain on sale of product line		(4,290)
Other non-cash items	1,597	(1,117)
Changes in assets and liabilities:		
Receivables, net	(53,727)	(14,878)
Inventories	(28,585)	(6,881)
Other current assets	(3,990)	(1,587)
Accounts payable and accrued liabilities	22,844	15,939
Pension liabilities	680	(1,772)
Environmental and legal liabilities	(79)	(3,338)
Deferred revenues	(736)	201
Excess tax benefit from stock options	(675)	(220)
<b>Net Cash Provided By (Used for) Operating Activities</b>	<b>(16,129)</b>	<b>16,933</b>
<b>Cash Flows From Investing Activities</b>		
Expenditures for property, plant and equipment	(19,027)	(21,690)
Proceeds from sale of product line		6,200
Other	(731)	279
<b>Net Cash Used In Investing Activities</b>	<b>(19,758)</b>	<b>(15,211)</b>
<b>Cash Flows From Financing Activities</b>		
Revolving debt and notes payable to banks, net	11,970	12,430
Term loan (Note 14)	30,000	
Other debt borrowings	2,760	
Other debt repayments	(8,003)	(5,697)
Dividends paid	(4,342)	(4,184)
Stock option exercises	3,697	520
Excess tax benefit from stock options	675	220
Other, net	(299)	(97)
<b>Net Cash Provided By Financing Activities</b>	<b>36,458</b>	<b>3,192</b>
<b>Effect of Exchange Rate Changes on Cash</b>	<b>286</b>	<b>204</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>857</b>	<b>5,118</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>5,739</b>	<b>5,369</b>

