STEPAN CO
Form 10-K
February 24, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(MARK ONE)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015

OR

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)	(Zip Code)

Registrant's telephone number including area code: 847-446-7500

Securities registered pursuant to Section 12 (b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $1 par value	New York Stock Exchange

Securities registered pursuant to Section 12 (g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act Yes o No x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in part III of this Form 10-K or any amendment to this Form 10-K. 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 o Non-accelerated filer o Smaller reporting company o

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

Aggregate market value at June 30, 2015, of voting and non-voting common stock held by nonaffiliates of the registrant: $ 1,048,660,674*

Number of shares outstanding of each of the registrant's classes of common stock as of January 30, 2016:

Class	Outstanding at January 30, 2016
Common Stock, $1 par value	22,282,350

Documents Incorporated by Reference

Part of Form 10-K	Document Incorporated
Part III, Items 10-14	Portions of the Proxy Statement for Annual Meeting of Stockholders to be held April 26, 2016.

* Based on reported ownership by all directors and executive officers at June 30, 2015.

STEPAN COMPANY

ANNUAL REPORT ON FORM 10-K

December 31, 2015

PART I

Item 1. Business

Stepan Company, which was incorporated under the laws of the state of Delaware on February 19, 1959, and its subsidiaries (the "Company") produce specialty and intermediate chemicals, which are sold to other manufacturers and used in a variety of end products. The Company has three reportable segments: Surfactants, Polymers and Specialty Products.

Surfactants are chemical agents that affect the interaction between two surfaces; they can provide actions such as detergency (i.e., the ability of water to remove soil from another surface), wetting and foaming, dispersing, emulsification (aiding two dissimilar liquids to mix), demulsification, viscosity modifications and biocidal disinfectants. Surfactants are the basic cleaning agent in detergents for washing clothes, dishes, carpets, fine fabrics, floors and walls. Surfactants are also used for the same purpose in shampoos, body wash and conditioners, fabric softeners, toothpastes, cosmetics and other personal care products. Commercial and industrial applications include emulsifiers for agricultural products, emulsion polymers such as floor polishes and latex foams and coatings, wetting and foaming agents for wallboard manufacturing and surfactants for enhanced oil recovery. In 2015, the Company purchased select chemical manufacturing assets from The Sun Products Corporation's (SUN) Pasadena, Texas, manufacturing site. The Company intends to redeploy the manufacturing assets as needed to reduce future capital expenditures. Separate from the purchase of selected assets, the Company signed a long-term supply agreement with SUN. Under this agreement, the Company will supply SUN's anionic surfactant requirements for laundry in North America. In June 2015, the Company purchased Procter & Gamble do Brasil S.A.'s (P&G Brazil's) sulfonation production facility in Bahia, Brazil. The new business complements the Company's existing Vespasiano, Brazil, plant and provides opportunities to serve growing northeastern Brazil. Given the current and forecasted price of crude oil, the Company and Nalco Company (Nalco) decided in October 2015 to dissolve their TIORCO, LLC enhanced oil recovery joint venture. The Company expects to continue to participate in the enhanced oil recovery business, but through operations within its organization.

Polymers, which include polyurethane polyols, polyester resins and phthalic anhydride, are used in a variety of applications. Polyurethane polyols are used in the manufacture of rigid foam for thermal insulation in the construction industry. They are also a raw material base for coatings, adhesives, sealants and elastomers (CASE) applications. Polyester resins, which include liquid and powdered products, are used in CASE and polyurethane systems house applications. Phthalic anhydride is used in polyester resins, alkyd resins, and plasticizers for applications in construction materials and components of automotive, boating, and other consumer products and internally in the Company's polyols.

Specialty Products are chemicals used in food, flavoring, nutritional supplement and pharmaceutical applications.

MARKETING AND COMPETITION

Principal customers for surfactants are manufacturers of detergents, shampoos, body wash, fabric softeners, toothpastes and cosmetics. In addition, surfactants are sold to the producers of agricultural herbicides and insecticides and lubricating products. Surfactants are also sold into the enhanced oil recovery end markets. Polymers are used in the construction and appliance industries, as well as in applications for the coatings, adhesives, sealants and elastomers industries. Phthalic anhydride, a Polymer product, is also used by automotive, boating and other consumer product companies. Specialty products are used primarily by food, nutritional supplement and pharmaceutical manufacturers.

The Company does not sell directly to the retail market, but sells to a wide range of manufacturers in many industries and has many competitors. The principal methods of competition are product performance, price, technical assistance and adaptability to the specific needs of individual customers. These factors allow the Company to compete on a basis other than price alone, reducing the severity of competition as experienced in the sales of commodity chemicals having identical performance characteristics. The Company is one of the leading merchant producers of surfactants in the world. In the case of surfactants, much of the Company’s competition comes from several large global and regional producers and the internal divisions of larger customers. In the manufacture of polymers, the Company competes with the chemical divisions of several large companies, as well as with other small specialty chemical manufacturers. In specialty products, the Company competes with several large firms plus numerous small companies.

MAJOR CUSTOMER AND BACKLOG

The Company did not have any one customer whose business represented more than 10 percent of the Company’s consolidated revenue in 2015, 2014 or 2013. The Company has contract arrangements with certain customers, but volumes are generally contingent on purchaser requirements. Much of the Company’s business is essentially on a “spot delivery basis” and does not involve a significant backlog.

ENERGY SOURCES

Substantially all of the Company's manufacturing plants operate on electricity and interruptible natural gas. During peak heating demand periods, gas service to all plants may be temporarily interrupted for varying periods ranging from a few days to several months. The plants operate on fuel oil during these periods of interruption. The Company's operations have not experienced any plant shutdowns or adverse effects upon its business in recent years that were caused by a lack of available energy sources, other than temporary service interruptions brought on by mechanical failure.

RAW MATERIALS

The most important raw materials used by the Company are petroleum or plant based. For 2016, the Company has contracts with suppliers that cover the majority of its forecasted requirements for major raw materials and is not substantially dependent upon any one supplier.

RESEARCH AND DEVELOPMENT

The Company maintains an active research and development program to assist in the discovery and commercialization of new knowledge with the intent that such efforts will be useful in developing a new product or in bringing about a significant improvement to an existing product or process. Total expenses for research and development during 2015, 2014 and 2013 were $30.3 million, $27.2 million, and $28.8 million, respectively. The remainder of research, development and technical service expenses reflected in the consolidated statements of income relates to technical services, which include routine product testing, analytical methods development and sales support service.

ENVIRONMENTAL COMPLIANCE

Compliance with applicable country, state and local regulations regarding the discharge of materials into the environment, or otherwise relating to the protection of the environment, resulted in capital expenditures by the Company of approximately $1.7 million during 2015. These expenditures represented approximately 1 percent of the Company's total 2015 capital expenditures. Capitalized environmental expenditures are depreciated and charged on a straight-line basis to pretax earnings over their estimated useful lives, which are typically 10 years. Recurring costs associated with the operation and maintenance of facilities for waste treatment and disposal and managing environmental compliance in ongoing operations at our manufacturing locations were approximately $22.1 million in 2015. Compliance with such regulations is not expected to have a material adverse effect on the Company's earnings and competitive position in the foreseeable future.

EMPLOYMENT

At December 31, 2015 and 2014, the Company employed 2,073 and 2,024 persons, respectively. The Company has collective bargaining agreements with employees at some of its manufacturing locations. While the Company has experienced occasional work stoppages as a result of the collective bargaining process and may experience some work stoppages in the future, management believes that it will be able to negotiate all labor agreements on satisfactory terms. Past work stoppages have not had a significant impact on the Company's operating results. Overall, the Company believes it has good relationships with its employees. In 2013, the Company negotiated a new four-year contract at its largest manufacturing site.

FOREIGN OPERATIONS AND REPORTING SEGMENTS

See Note 17, Segment Reporting, of the Consolidated Financial Statements (Item 8 of this Form 10-K).

WEBSITE

The Company's website address is www.stepan.com. The Company makes available free of charge on or through its website its code of conduct, annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission. The website also includes the Company's corporate governance guidelines and the charters for the audit, nominating and corporate governance and compensation and development committees of the Board of Directors.

Executive Officers of the Registrant

The Company's executive officers are elected annually by the Board of Directors at the first meeting following the Annual Meeting of Stockholders to serve through the next annual meeting of the Board and until their respective successors are duly elected and qualified.

The executive officers of the Company, their ages and certain other information as of February 24, 2016, are as follows:

Name	Age	Title	Year First Elected Officer
F. Quinn Stepan	78	Chairman	1967
F. Quinn Stepan, Jr.	55	President and Chief Executive Officer	1997
Frank Pacholec	60	Vice President, Research and Development and Corporate Sustainability Officer	2003
Gregory Servatius	56	Vice President, Human Resources	2006
Scott C. Mason	57	Vice President, Supply Chain	2010
Scott D. Beamer	44	Vice President and Chief Financial Officer	2013
Arthur W. Mergner	52	Vice President and General Manager – Polymers	2014
Scott R. Behrens	46	Vice President and General Manager – Surfactants	2014
Debra A. Stefaniak	54	Vice President, Business Transformation	2015
Jennifer A. Hale	54	Vice President, General Counsel and Secretary	2016

F. Quinn Stepan is an executive officer of the Company and Chairman of the Company's Board of Directors. He served the Company as Chairman and Chief Executive Officer from October 1984 through December 2005. He served as President from 1973 until February 1999.

F. Quinn Stepan, Jr., has served the Company as President and Chief Executive Officer since January 2006. He served the Company as President and Chief Operating Officer from 1999 through 2005. From January 1997 until February 1999 he served as Vice President and General Manager – Surfactants. From May 1996 until January 1997 he served as Vice President – Global Laundry and Cleaning Products. From May 1992 until May 1996 he served as Director – Business Management.

Frank Pacholec has served the Company as Vice President, Research and Development since April 2003. In May 2010 he was also appointed as the Company's Corporate Sustainability Officer.

Gregory Servatius has served the Company as Vice President, Human Resources since February 2006. From April 2003 until January 2006, he served as Vice President, Surfactant Sales. From October 2001 until April 2003, he served as Vice President Functional Products. From 1998 to 2001, he served as the Managing Director of the Company's European operations.

Scott C. Mason has served the Company as Vice President, Supply Chain since March 2010. From January 2006 until December 2009, he served as Senior Vice President Global Supply Chain and President, Alternative Channels of Nalco Company.

Scott D. Beamer has served the Company as Vice President and Chief Financial Officer since August 2013. From January 2012 until July 2013, he served as Assistant Corporate Controller at PPG Industries, Inc. From June 2008 until December 2011 he served as Chief Financial Officer and Director of Finance – PPG Europe at PPG Industries, Inc.

Arthur W. Mergner has served the Company as Vice President and General Manager - Polymers since April 2014. From June 2013 until April 2014, he served as Vice President - North America Polymers. From July 2008 through June 2013 he served as Vice President, Procurement.

Scott R. Behrens has served the Company as Vice President and General Manager - Surfactants since September 2014. From January 2010 to September 2014 he served as Vice President – Business Management. From November 2008 to January 2010 he served as Vice President – Functional Products.

Debra A. Stefaniak has served the Company as Vice President, Business Transformation since February 2014. From May 2009 to February 2014, she served as Vice President, Global Logistics. From July 2006 to May 2009, she served as Director, Global Logistics.

Jennifer A. Hale has served the Company as Vice President, General Counsel and Secretary since January 2016. From 2013 through 2015, she served as Vice President, Global General Counsel and Strategic Business Consultant at Vita-Mix Holdings Company. From 2007 to 2013, she served as Vice President, General Counsel and Secretary at Dyson, Inc.

Item 1A. Risk Factors

The following discussion identifies the most significant factors that may materially and adversely affect the Company’s business, financial condition, results of operations and cash flows. These and other factors, many of which are beyond the Company’s control, may cause future results of operations to differ materially from past results or those results currently expected or desired. The following information should be read in conjunction with Part II, Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related notes included in this Form 10-K.

Disruptions in production at our manufacturing facilities, both planned and unplanned, may have a material impact on our business, financial position, results of operations and cash flows.

Manufacturing facilities in the Company’s industry are subject to planned and unplanned production shutdowns, turnarounds and outages. Unplanned production disruptions may occur for external reasons including natural disasters, weather, disease, strikes, transportation interruption, government regulation, political unrest or terrorism, or internal reasons, such as fire, unplanned maintenance or other manufacturing problems. Alternative facilities with sufficient capacity may not be available, may cost substantially more or may take a significant amount of time to increase production or qualify with Company customers, each of which could negatively impact the Company’s business, financial position, results of operations and cash flows. Long-term production disruptions may cause Company customers to seek alternative supply, which could further adversely affect Company profitability.

Some of the Company’s products cannot currently be made, or made in the volume required, at more than one of the Company’s locations. For some of these products, the Company has access to external market suppliers, but the Company cannot guarantee that these products will be available to it in amounts sufficient to meet its requirements or at a cost that is competitive with the Company’s cost of manufacturing these products.

While the Company maintains insurance coverage, some of these manufacturing issues may not be insurable, and when they are insurable, there can be no assurance that the insurance coverage would be sufficient to cover any or all losses resulting from the occurrence of any of these events or that insurance carriers would not deny coverage for these losses even if they are insured. There is also a risk, beyond the reasonable control of the Company, that an insurance carrier may not have the financial resources to cover an insurable loss. As a result, the occurrence of any of these events could have a material adverse effect on the Company’s business, financial position, results of operations and cash flows.

The Company faces significant global competition in each of its operating segments. If the Company cannot successfully compete in the marketplace, its profitability, business, financial position, results of operations and cash flows may be materially and adversely affected.

The Company faces significant competition from numerous global companies as well as national, regional and local companies in the markets it serves. In addition, some of the Company’s customers have internal manufacturing capabilities that allow them to achieve make-versus-buy economics, which may result at times in the Company gaining or losing business with these customers in volumes that could adversely affect its profitability.

To achieve expected profitability levels, the Company must, among other things, maintain the service levels, product quality and performance and competitive pricing necessary to retain existing customers and attract new customers. The Company’s inability to do so could place it at a competitive disadvantage relative to its competitors, and if the Company cannot successfully compete in the marketplace, its business, financial position, results of operations and cash flows may be materially and adversely affected.

The volatility of raw material, natural gas and electricity costs as well as any disruption in their supply may materially and adversely affect the Company’s business, financial position, results of operations and cash flows.

The costs of raw materials, natural gas and electricity represent a substantial portion of the Company's operating costs. The principal raw materials used in the Company's products are petroleum-based or plant-based. Natural gas is used in the Company's manufacturing sites primarily to generate steam for its manufacturing processes. The prices of many of these raw materials have recently been very volatile. These fluctuations in prices may be affected by supply and demand factors, such as general economic conditions, manufacturers' ability to meet demand, restrictions on the transport of raw material (some of which may be viewed as hazardous), currency exchange rates, political instability and terrorist attacks, all of which are beyond the Company's control. The Company may not be able to pass increased raw material and energy costs on to customers through increases in product prices as a result of arrangements the Company has with certain customers and competitive pressures in the market. If the Company is unable to minimize the effects of increased raw material and energy costs or pass such increased costs on to customers, its business, financial position, results of operations and cash flows may be materially and adversely affected.

The Company relies heavily on third party transportation to deliver raw materials to Company manufacturing facilities and ship products to Company customers. Disruptions in transportation or significant changes in transportation costs could affect the Company's operating results.

The Company relies heavily on railroads, barges and other over-the-road shipping methods to transport raw materials to its manufacturing facilities and to ship finished product to customers. Transport operations are exposed to various risks, such as extreme weather conditions, work stoppages and operating hazards, as well as interstate transportation regulations. If the Company is unable to ship finished product or unable to obtain raw materials due to transportation problems, or if there are significant changes in the cost of these services, the Company may not be able to arrange efficient alternatives and timely means to obtain raw materials or ship product, which could result in an adverse effect on Company revenues, costs and operating results.

Customer product reformulations or new technologies can reduce the demand for the Company's products.

The Company's products are used in a broad range of customer product applications. Customer product reformulations or development and use of new technologies may lead to reduced consumption of Company-produced products or make some Company products unnecessary. It is imperative that the Company develops new products to replace the sales of products that mature and decline in use. The Company's business, financial position, results of operations and cash flows could be materially and adversely affected if the Company is unable to manage successfully the maturation of existing products and the introduction of new products.

If the Company is unable to keep and protect its intellectual property rights, the Company's ability to compete may be negatively impacted.

The Company relies on intellectual property rights for the manufacture, distribution and sale of its products in all three of its reportable segments. Although most of the Company's intellectual property rights are registered in the United States and in the foreign countries in which it operates, the Company may not be able to assert these rights successfully in the future or guarantee that they will not be invalidated, circumvented or challenged. Other parties may infringe on the Company's intellectual property rights, which may dilute the value of such rights. Infringement of the Company's intellectual property rights could also result in diversion of management's time and the Company's resources to protect these rights through litigation or otherwise. In addition, the laws of some foreign countries may not protect the Company's intellectual property rights to the same extent as the laws of the United States. Any loss of protection of these intellectual property rights could adversely affect the future financial position, results of operations and cash flows of the Company.

The Company is subject to risks related to its operations outside the U.S.

The Company has substantial operations outside the U.S. In the year ended December 31, 2015, the Company's sales outside of the U.S. constituted approximately 40 percent of the Company's net sales. In addition to the risks described in this Annual Report on Form 10 K that are common to both the Company's U.S. and non-U.S. operations, the Company faces, and will continue to face, risks related to the Company's foreign operations such as:

- variability of intellectual property laws outside the U.S. may impact enforceability and consistency of protection of intellectual property assets;
- high levels of inflation;
- fluctuations in foreign currency exchange rates may affect product demand and may adversely affect the profitability in U.S. Dollars of products and services we provide in international markets where payment for our products and services is made in the local currency;
- political, economic, financial and market conditions may be unstable;
- changes in labor conditions and difficulties in staffing and managing international operations;
- trade and currency restrictions, including currency exchange controls imposed by foreign countries;

- changes in foreign laws and tax rates or U.S. laws and tax rates with respect to foreign income may unexpectedly increase the rate at which our income is taxed, impose new and additional taxes on remittances, repatriation or other payments by subsidiaries, or cause the loss of previously recorded tax benefits;
- greater difficulty enforcing contracts and collecting accounts receivable;
- enforceability and compliance with U.S. laws affecting operations outside of the U.S.;
- adverse changes in foreign laws and regulations; and
- restrictions on repatriating foreign profits back to the U.S.

The actual occurrence of any or all of the foregoing could have a material adverse effect on the Company's business, financial position, results of operations and cash flows in the future.

Fluctuations in foreign currency exchange rates could affect Company financial results.

The Company is also exposed to fluctuations in exchange rates. The Company's results of operations are reported in U.S. dollars. However, outside the U.S., the Company's sales and costs are denominated in a variety of currencies including the European euro, British pound, Canadian dollar, Mexican peso, Colombian peso, Philippine peso, Brazilian real, Polish zloty, Singapore dollar and Chinese RMB. Fluctuations in exchange rates may materially and adversely affect the Company's business, financial position, results of operations and cash flows.

In all jurisdictions in which the Company operates, the Company is also subject to laws and regulations that govern foreign investment, foreign trade and currency exchange transactions. These laws and regulations may limit the Company's ability to repatriate cash as dividends or otherwise to the U.S. and may limit the Company's ability to convert foreign currency cash flows into U.S. dollars. A weakening of the currencies in which the Company generates sales relative to the foreign currencies in which the Company's costs are denominated may lower the Company's operating profits and cash flows.

The Company is subject to a variety of environmental, health and safety and product registration laws that expose it to potential financial liability and increased operating costs.

The Company's operations are regulated under a number of federal, state, local and foreign environmental, health and safety laws and regulations that govern, among other things, the discharge of hazardous materials into the air, soil and water as well as the use, handling, storage and disposal of these materials. These laws and regulations include, but are not limited to, the U.S. Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act, as well as analogous state, local and foreign laws, and the Registration, Evaluation, Authorization and Restriction of Chemical Substances Act (REACH). Compliance with these environmental laws and regulations is a major consideration for the Company because the Company uses hazardous materials in some of the Company's manufacturing processes. In addition, compliance with environmental laws could restrict the Company's ability to expand its facilities or require the Company to acquire additional costly pollution control equipment, incur other significant expenses or modify its manufacturing processes. The Company has incurred and will continue to incur capital expenditures and operating costs in complying with these laws and regulations. In addition, because the Company generates hazardous wastes during some of its manufacturing processes, the Company, along with any other entity that disposes or arranges for the disposal of the Company's wastes, may be subject to financial exposure for costs associated with any investigation and remediation of sites at which the Company has disposed or arranged for the disposal of hazardous wastes if those sites become contaminated, even if the Company fully complied with applicable environmental laws at the time of disposal. In the event that new contamination is discovered, the Company may become subject to additional requirements with respect to existing contamination or the Company's clean-up obligations.

The transportation of certain raw materials is highly regulated and is subject to increased regulation or restrictions, which may restrict or prohibit transport of these raw materials, resulting in these raw materials not being available to the Company and restricting or substantially limiting the Company's manufacturing operations.

The Company is also subject to numerous federal, state, local and foreign laws that regulate the manufacture, storage, distribution and labeling of many of the Company's products, including some of the Company's disinfecting, sanitizing and antimicrobial products. Some of these laws require the Company to have operating permits for the Company's production facilities, warehouse facilities and operations. Various federal, state, local and foreign laws and regulations also require the Company to register the Company's products and to comply with specified requirements with respect to those products. If the Company fails to comply with any of these laws and regulations, it may be liable for damages and the costs of remedial actions in excess of the Company's recorded liabilities, and may also be subject to fines, injunctions or criminal sanctions or to revocation, non-renewal or modification of the Company's operating permits and revocation of the Company's product registrations. Any such revocation, modification or non-renewal may require the Company to cease or limit the manufacture and sale of its products at one or more of the Company's facilities, which may limit or prevent the Company's ability to meet product demand or build new facilities and may have a material adverse effect on the Company's business, financial position, results of operations and cash flows. Any such revocation, non-renewal or modification may also result in an event of default under the indenture for the Company's notes or under the Company's credit facilities, which, if not cured or waived, may result in the acceleration of all the Company's indebtedness.

In addition to the costs of complying with environmental, health and safety requirements, the Company has incurred and may incur in the future costs defending against environmental litigation and/or investigations brought by government agencies and private parties. The Company may be a defendant in lawsuits brought by parties in the future alleging environmental damage, personal injury or property damage. A significant judgment or settlement, to the extent not covered by existing insurance policies, against the Company could harm its business, financial position, results of operations and cash flows. Although the Company has insurance that may cover some of these potential losses, there is always uncertainty as to whether such insurance may be available to the Company based on case-specific factors and the specific provisions of the Company's insurance policies.

The potential cost to the Company relating to environmental, health and safety and product registration matters, including the cost of complying with the foregoing legislation and remediating contamination, is uncertain due to factors such as the unknown magnitude and type of possible contamination and clean-up costs, the complexity and evolving nature of laws and regulations relating to the environment, health and safety and product registration, including those outside of the U.S., and the timing, variable costs and effectiveness of clean-up and compliance methods. Environmental and product registration laws may also become more stringent over time, imposing greater compliance costs and increasing risks and penalties associated with any violation, as well as restricting or prohibiting the sale of existing or new products, which may also negatively impact the Company's operating results. Without limiting the foregoing, these laws or regulations may restrict or prohibit the use of non-renewable or carbon-based substances, or impose fees or penalties for the use of these substances. Accordingly, the Company may become subject to additional liabilities and increased operating costs in the future under these laws and regulations. The impact of any such changes, which are unknown at this time, may have a material adverse effect on the Company's business, financial position, results of operations and cash flows.

The Company's inability to estimate and maintain appropriate levels of recorded liabilities for existing and future contingencies may materially and adversely affect the Company's business, financial position, results of operations and cash flows.

The liabilities recorded by the Company for pending and threatened legal proceedings are estimates based on various assumptions. An adverse ruling or external forces, such as changes in the rate of inflation, the regulatory environment and other factors that could prove such assumptions to be no longer appropriate, may affect the accuracy of these estimates. Given the uncertainties inherent in such estimates, the Company's actual liabilities could differ significantly from the estimated amounts the Company records in its financial statements with respect to existing and future contingencies. If the Company's actual liability is higher than estimated or any new legal proceeding is initiated, it could materially and adversely affect the Company's business, financial position, results of operations and cash flows.

The Company has a significant amount of indebtedness and may incur additional indebtedness, or need to refinance existing indebtedness, in the future, which may adversely affect the Company's business, financial position, results of operations and cash flows.

The Company has a significant amount of indebtedness and may incur additional indebtedness in the future. As of December 31, 2015, the Company had $332.6 million of debt on its balance sheet. U.S. debt included $322.1 million in unsecured promissory notes with maturities extending from 2016 until 2027.

The Company's foreign subsidiaries also maintain bank term loans and short-term bank lines of credit in their respective countries to meet working capital requirements as well as to fund capital expenditure programs and acquisitions. As of December 31, 2015, the Company's foreign subsidiaries' aggregate outstanding debt totaled $10.5 million.

The Company's current indebtedness and any additional indebtedness incurred in the future may materially and adversely affect its business, financial position, results of operations and cash flows. For example, it could:

- require the Company to dedicate a substantial portion of cash flow from operations to pay principal and interest on the Company's debt, which would reduce funds available to fund future working capital, capital expenditures and other general operating requirements;

- limit the Company’s ability to borrow funds that may be needed to operate and expand its business;
- limit the Company’s flexibility in planning for or reacting to changes in the Company’s business and the industries in which the Company operates;
- increase the Company’s vulnerability to general adverse economic and industry conditions or a downturn in the Company’s business; and
- place the Company at a competitive disadvantage compared to its competitors that have less debt.

The Company’s loan agreements contain provisions, which, among others, require maintenance of certain financial ratios and place limitations on additional debt, investments and payment of dividends. Failure to comply with these loan agreements would require debt restructuring that could be materially adverse to the Company’s financial position, results of operations and cash flows. Additionally, any future disruptions in the credit and financial markets may reduce the availability of debt financing or refinancing and increase the costs associated with such financing. If the Company is unable to secure financing on satisfactory terms, or at all, its business financial position, results of operations and cash flows may be materially and adversely affected.

Downturns in certain industries and general economic downturns may have an adverse effect on the Company's business, financial position, results of operations and cash flows.

Economic downturns may adversely affect users of some end products that are manufactured using the Company's products and the industries in which such end products are used. These users may reduce their volume of purchases of such end products during economic downturns, which would reduce demand for the Company's products. Additionally, uncertain conditions in the credit markets pose a risk to the overall economy that may impact consumer and customer demand of some of the Company's products, as well as the Company's ability to manage normal commercial relationships with its customers, suppliers and creditors. Some of the Company's customers may not be able to meet the terms of sale and suppliers may not be able to fully perform their contractual obligations due to tighter credit markets or a general slowdown in economic activity.

In the event that economic conditions worsen or result in a prolonged downturn or recession, the Company's business, financial position, results of operations and cash flows may be materially and adversely affected.

Cost overruns, delays and miscalculations in capacity needs with respect to the Company's expansion or other capital projects could adversely affect the Company's business, financial position, results of operations and cash flows.

From time to time, the Company initiates expansion and other significant capital projects. Projects of this type are subject to risks of delay or cost overruns inherent in any large construction project resulting from numerous factors, including the following: shortages of equipment, materials or skilled labor; work stoppages; unscheduled delays in the delivery of ordered materials and equipment; unanticipated cost increases; difficulties in obtaining necessary permits or in meeting permit conditions; difficulties in meeting regulatory requirements or obtaining regulatory approvals; availability of suppliers to certify equipment for existing and enhanced regulations; design and engineering problems; and failure or delay of third party service providers, civil unrest and labor disputes. Significant cost overruns or delays in completing a project could have a material adverse effect on the Company's return on investment, results of operations and cash flows. In addition, if the Company miscalculates its anticipated capacity needs, this too could negatively impact its operations, financial condition and results of operations.

The Company relies extensively on information technology (IT) systems to conduct its business. Interruption of, damage to or compromise of the Company's IT systems could have an adverse effect on the Company's business, financial position, results of operations and cash flows.

The Company relies on IT systems for most areas of operations, including production, supply chain, research and development, finance, human resource and regulatory functions. The Company's ability to effectively manage its business depends on the security, reliability and adequacy of these systems. IT system failures due to events including but not limited to network disruptions, programming errors, computer viruses and security breaches (e.g., cyber-attacks) could impact production activities, impede shipment of products, cause delays or cancellations of customer orders, or hamper the processing of transactions or reporting of financial results. The theft, unauthorized use or publication of our intellectual property and/or confidential business information could harm our competitive position, reduce the value of our investment in research and development and other strategic initiatives or otherwise adversely affect our business. The Company may be required to expend additional resources to continue to enhance its information privacy and security measures and/or to investigate and remediate any information security vulnerabilities. While the Company has a comprehensive program for continuously reviewing, maintaining, testing and upgrading its IT systems and security, there can be no assurance that such efforts will prevent breakdowns or breaches in Company systems that could adversely affect the Company's business, financial position, results of operations and cash flows.

Various liability claims could materially and adversely affect the Company's financial position, operating results and cash flows.

The Company may be required to pay for losses or injuries purportedly caused by its products. The Company faces an inherent exposure to various types of claims including general liability, product liability, product recall, toxic tort and environmental ("claims"), among others, if its products, or the end products that are manufactured with the Company's products, result in property damage, injury or death. In addition, because the Company conducts business in multiple jurisdictions, the Company also faces an inherent exposure to other general claims based on its operations in those jurisdictions and the laws of those jurisdictions, including but not limited to claims arising from its relationship with employees, distributors, agents and customers, and other parties with whom it has a business relationship, directly or indirectly. Many of these claims may be made against the Company even if there is no evidence of a loss from that claim, and these claims may be either made by individual entities, or potentially a group of plaintiffs in a class action. Defending these claims could result in significant legal expenses relating to defense costs and/or damage awards and diversion of management's time and the Company's resources. Any claim brought against the Company, net of potential insurance recoveries, could materially and adversely affect the Company's business financial position, results of operations and cash flows.

The Company's forecasts and other forward-looking statements are based on a variety of assumptions and estimates that are subject to significant uncertainties. The Company's performance may not be consistent with these forecasts or forward-looking statements.

From time to time in press releases and other documents filed with the SEC, the Company publishes forecasts or other forward-looking statements regarding its future results, including estimated revenues, net earnings and other operating and financial metrics.

Any forecast or forward-looking statement related to the Company's future performance reflects various assumptions and estimates, which are subject to significant uncertainties, and the achievement of any forecast or forward-looking statement depends on numerous risks and other factors, including those described in this Annual Report on Form 10-K, many of which are beyond the Company's control. If these assumptions and estimates prove to be incorrect, or any of the risks or other factors occur, then the Company's performance may not be consistent with these forecasts or forward-looking statements.

You are cautioned not to rely solely on such forward-looking statements, but instead are encouraged to utilize the entire mix of publicly available historical and forward-looking information, as well as other available information affecting the Company, the Company's services and the Company's industry, when evaluating the Company's forecasts and other forward-looking statements relating to the Company's operations and financial performance.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

The following are the Company's principal plants and other important physical properties. Unless otherwise noted, the listed properties are owned by the Company. Management believes that the facilities are suitable and adequate for the Company's current operations.

	Name of Facility	Location	Site Size	Segment
1.	Millsdale	Millsdale (Joliet), Illinois	492 acres	Surfactants/Polymers
2.	Fieldsboro	Fieldsboro, New Jersey	45 acres	Surfactants
3.	Anaheim	Anaheim, California	8 acres	Surfactants
4.	Winder	Winder, Georgia	202 acres	Surfactants
5.	Maywood	Maywood, New Jersey	19 acres	Surfactants / Specialty Products
6.	Columbus	Columbus, Georgia	29.8 acres	Polymers
7.	Stepan France	Voreppe, France	20 acres	Surfactants
8.	Stepan Mexico	Matamoros, Mexico	13 acres	Surfactants
9.	Stepan Germany	Wesseling, Germany	12 acres	Surfactants/Polymers
10.	Stepan UK	Stalybridge, United Kingdom	11 acres	Surfactants
11.	Stepan Colombia	Manizales, Colombia	5 acres	Surfactants
12.	Stepan Canada	Longford Mills, Canada	70 acres (leased)	Surfactants
13.	Stepan China	Nanjing, China (Nanjing Chemical Industrial Park)	13 acres (right of use arrangement)	Polymers (Manufacturing operations expected to commence in first quarter of 2016)
14.	Stepan Brazil	Vespasiano, Minas Gerais, Brazil	27 acres	Surfactants
15.	Stepan Brazil	Simoes Filho, Bahia, Brazil	29 acres	Surfactants
16.	Stepan Philippines	Bauan, Batangas, Philippines	9 acres (leased)	Surfactants
17.	Stepan Poland	Brzeg Dolny, Poland		Polymers

		4 acres (perpetual use right)	
18. Stepan Asia	Jurong Island, Singapore	8 acres (leased)	Surfactants
19. Company Headquarters and Central Research Laboratories	Northfield, Illinois	8 acres	N/A
20. Company Corporate Supply Chain, Human Resources, Legal and Finance Functions	Northbrook, Illinois	3.25 acres	N/A

10

Item 3. Legal Proceedings

There are a variety of legal proceedings pending or threatened against the Company that occur in the normal course of the Company's business, the majority of which relate to environmental matters. 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 relative to or has been named by the government as a potentially responsible party at a number of 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. For most of these sites, the involvement of the Company is expected to be minimal. The most significant sites are described below:

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 potentially responsible party (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 through the third quarter of 2015. 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 it has adequate reserves for the claims related to this site. 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.

Other Matters

The Company has been named as a de minimis PRP at other sites, and as such the Company believes that a resolution of its liability will not have a material impact on the financial position, results of operations or cash flows of the Company.

Item 4. Mine Safety Disclosures

Not Applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

(a) The Company's common stock is listed and traded on the New York Stock Exchange. See table below for New York Stock Exchange quarterly market price information.

Quarterly Stock Data

	Stock Price Range			
	2015		2014	
Quarter	High	Low	High	Low
First	$41.80	$37.20	$65.14	$59.49
Second	$55.22	$41.34	$66.47	$51.17
Third	$55.67	$40.49	$53.91	$44.38
Fourth	$54.87	$40.72	$46.85	$36.34
Year	$55.67	$37.20	$66.47	$36.34

On February 19, 2013, the Board of Directors of Stepan Company authorized the Company to repurchase up to 1,000,000 shares of its outstanding common stock. During 2015, 41,915 shares of Company common stock were purchased in the open market and 2,183 shares of common stock were received to settle employees' minimum statutory withholding taxes related to performance stock awards and deferred compensation distribution. The purchased and received shares were recorded as treasury stock in the Company's balance sheet. At December 31, 2015, 761,764 shares remained available for repurchase under the February 19, 2013, authorization. The timing and amount of the repurchases are determined by the Company's management based on its evaluation of market conditions and share price. Shares will be repurchased with cash in open market or private transactions in accordance with applicable securities and stock exchange rules.

(b) On January 31, 2016, there were 1,655 holders of record of common stock of the Company.
(c) There were no purchases of shares of the Company's stock by the Company during the fourth quarter of 2015.

(d) See table below for quarterly dividend information.
Dividends Declared Per Common Share

Quarter	2015	2014
First	$0.18	$0.17
Second	$0.18	$0.17
Third	$0.18	$0.17
Fourth	$0.19	$0.18
Year	$0.73	$0.69

The Company has material debt agreements that restrict the payment of dividends. See the Liquidity and Financial Condition section of Part II, Item 7, Management's Discussion and Analysis, for a description of the restrictions. See also Note 6, Debt, of the consolidated financial statements (Item 8 of this Form 10-K) for the amount of retained earnings available for dividend distribution at December 31, 2015.

(e) Stock Performance Graph

The following stock performance graph compares the yearly change since December 31, 2010, in cumulative return on the common stock of the Company on a dividend reinvested basis to the Dow Jones Chemical Industry Index and the Russell 2000 Index. The Dow Jones Chemical Industry Index is a market-capitalization weighted grouping of 35 chemical companies, including major manufacturers of both basic and specialty products. The Company is not included in the Dow Jones Chemical Industry Index. The Russell 2000 Index is a market-capitalization weighted grouping of 2,000 small to medium sized companies in a broad range of industries. The Company has been included in the Russell 2000 Index since 1992. The graph assumes $100 was invested on December 31, 2010, and shows the cumulative total return as of each December 31 thereafter.

Item 6. Selected Financial Data

(In thousands, except per share data)

For the Year	2015	2014	2013	2012	2011
Net Sales	$1,776,167	$1,927,213	$1,880,786	$1,803,737	$1,843,092
Operating Income	122,790	90,694	109,153	128,716	118,456
Percent of Net Sales	6.9 %	4.7 %	5.8 %	7.1 %	6.4 %
Income Before Provision for Income Taxes	102,856	75,535	95,630	115,722	104,894
Percent of Net Sales	5.8 %	3.9 %	5.1 %	6.4 %	5.7 %
Provision for Income Taxes	26,819	18,454	23,293	36,035	32,292
Net Income Attributable to Stepan Company	75,968	57,101	72,828	79,396	71,976
Per Diluted Share	3.32	2.49	3.18	3.49	3.21
Percent of Net Sales	4.3 %	3.0 %	3.9 %	4.4 %	3.9 %
Percent to Total Stepan Company Stockholders' Equity[(a)]	13.9 %	10.5 %	14.1 %	18.0 %	19.2 %
Cash Dividends Paid	16,300	15,387	14,474	12,757	11,513
Per Common Share	0.7300	0.6900	0.6500	0.5800	0.5300
Depreciation and Amortization	66,985	63,804	56,400	51,294	47,099
Capital Expenditures	119,349	101,819	92,865	83,159	83,166
Weighted-average Common Shares Outstanding (Diluted)	22,858	22,917	22,924	22,730	22,440
As of Year End					
Working Capital	$376,329	$326,043	$339,557	$275,911	$246,516
Current Ratio	2.5	2.3	2.3	2.1	2.1
Property, Plant and Equipment, Net	555,463	524,195	494,042	422,022	383,983
Total Assets	1,239,661	1,162,014	1,167,202	985,478	901,118
Long-term Debt Obligations, Less Current Maturities	313,817	246,897	235,246	149,564	164,967
Total Stepan Company Stockholders' Equity	556,984	535,546	552,286	478,985	401,211

(a) Based on average equity.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is management's discussion and analysis (MD&A) of certain significant factors that have affected the Company's financial condition and results of operations during the annual periods included in the accompanying consolidated financial statements.

Certain matters discussed in the following Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) include forward-looking statements that are subject to certain risks, uncertainties and assumptions. Such forward-looking statements are intended to be identified in this document by the words, "anticipate," "believe," "estimate," "expect," "intend," "may," "objective," "outlook," "plan," "project," "possible," "potential," "should" ar expressions. Actual results may vary materially.

Forward-looking statements speak only as of the date they are made, and the Company does not undertake any obligation to update them to reflect changes that occur after that date. Factors that could cause actual results to differ materially include the items described in Item 1A of this Annual Report on Form 10-K.

Overview

The Company produces and sells intermediate chemicals that are used in a wide variety of applications worldwide. The overall business comprises three reportable segments:

- Surfactants – Surfactants, which accounted for 68 percent of consolidated net sales in 2015, are principal ingredients in consumer and industrial cleaning products such as detergents for washing clothes, dishes, carpets, floors and walls, as well as shampoos and body washes. Other applications include fabric softeners, germicidal quaternary compounds, lubricating ingredients, emulsifiers for spreading agricultural products and industrial applications such as latex systems, plastics and composites. Surfactants are manufactured at six North American sites (five in the U.S. and one in Canada), three European sites (United Kingdom, France and Germany), four Latin American sites (Mexico, Colombia and two sites in Brazil) and two Asian sites (Philippines and Singapore). The Company also holds a 50 percent ownership interest in a joint venture, TIORCO, LLC, that markets chemical solutions for increasing the production of crude oil and natural gas from existing fields (enhanced oil recovery or EOR). The joint venture is accounted for under the equity method, and its financial results are excluded from surfactant segment operating results. See the '2015 Business Developments' section that follows for additional information about the dissolution of the TIORCO venture.
- Polymers – Polymers, which accounted for 28 percent of consolidated net sales in 2015, include polyurethane polyols, polyester resins and phthalic anhydride. Polyurethane polyols are used in the manufacture of rigid foam for thermal insulation in the construction industry and are also a base raw material for coatings, adhesives, sealants and elastomers (collectively CASE products) and flexible foams. Polyester resins, which include liquid and powdered products, are used in CASE and polyurethane systems house applications. CASE, polyester resins and flexible foam are collectively referred to as specialty polyols. Phthalic anhydride is used in unsaturated polyester resins, alkyd resins and plasticizers for applications in construction materials and components of automotive, boating and other consumer products. In addition, the Company uses phthalic anhydride internally in the production of polyols. In the U.S., polyurethane polyols and phthalic anhydride are manufactured at the Company's Millsdale, Illinois, site and specialty polyols are manufactured at the Company's Columbus, Georgia, site. In Europe, polyols are manufactured at the Company's subsidiary in Germany and specialty polyols are manufactured at the Company's Poland subsidiary. In Asia, polyols are currently toll produced for the Company's 80-percent owned joint venture in Nanjing, China. The Company is building a new plant in Nanjing that is expected to be operational in the first quarter of 2016.
- Specialty Products – Specialty products, which accounted for four percent of consolidated net sales in 2015, include flavors, emulsifiers and solubilizers used in food, flavoring, nutritional supplement and pharmaceutical applications. Specialty products are primarily manufactured at the Company's Maywood, New Jersey, site and, in some instances, at outside contractors.

2015 Business Developments

Business Acquisition

On June 15, 2015, the Company completed its previously announced acquisition of Procter & Gamble do Brasil S.A.'s (P&G Brazil's) sulfonation production facility in Bahia, Brazil. The facility is located in northeastern Brazil and has 30,000 metric tons of surfactants capacity. The acquisition expands the Company's capabilities in Brazil, which is the world's fifth most populous country and has a growing population. As the country's usage of laundry products transitions from soap bars to powders to liquids, surfactant use is expected to expand. Surfactants usage in functional applications, including the large Brazilian agricultural industry, is also expected to increase. Brazil is a strategic priority for the Company. The new business complements the Company's existing Vespasiano, Brazil, plant and provides opportunities to serve growing northeastern Brazil. The acquired business is included in the Company's Surfactants segment. See Note 20 to the consolidated financial statements for further information regarding the business acquisition.

Supply Agreement and Asset Acquisition

In July 2015, the Company signed a long-term supply agreement with The Sun Products Corporation (SUN). Under this agreement the Company will supply SUN's anionic surfactant requirements for laundry in North America. The agreement commenced in the third quarter of 2015. The demand from this agreement is being serviced from the Company's existing North American manufacturing assets. The supply agreement was made possible due to the strength of the Company's sulfonation expertise and North American supply network that provide this customer with multiple source locations and increased surfactant flexibility. This agreement should enable the Company to improve its North American capacity utilization.

In September 2015, the Company closed on the previously announced agreement to purchase select chemical manufacturing assets from SUN's Pasadena, Texas manufacturing site. An option to purchase the land at this site was also exercised. See Note 20 to the consolidated financial statements for further information regarding the asset purchase.

TIORCO Joint Venture

Given the current and forecasted price of crude oil, the Company and Nalco Company (Nalco) decided in October 2015 to dissolve their TIORCO enhanced oil recovery joint venture. The Company expects to continue to participate in the enhanced oil recovery business, but through operations within its organization. With this change, the Company seeks to reduce the unfavorable financial statement impact of TIORCO's losses, which have averaged about $5.0 million per year over the last three years. The Company expects its own operating expenses to increase to support its enhanced oil recovery activities, but the net impact to earnings of the dissolution is expected to be positive. As a result of the dissolution, TIORCO incurred fourth quarter 2015 exit costs to wind down the entity. The Company's share of the exit costs was $2.4 million pretax. The exit costs were included in the 'Loss from equity in joint ventures' line in the consolidated statement of income for the year ended December 31, 2015. See Note 25 to the consolidated financial statements for further information.

Deferred Compensation Plans

The accounting for the Company's deferred compensation plans can cause period-to-period fluctuations in Company expenses and profits. Compensation expense results when the values of Company common stock and mutual fund investment assets held for the plans increase, and compensation income results when the values of Company common stock and mutual fund investment assets decline. The pretax effect of all deferred compensation-related activities (including realized and unrealized gains and losses on the mutual fund assets held to fund the deferred compensation obligations) and the income statement line items in which the effects of the activities were recorded are presented in the following table:

	Income (Expense) For the Year Ended December 31		
(In millions)	2015	2014	Change
Deferred Compensation (Operating expenses)	$(6.5)	$11.9	$(18.4) (1)
Investment Income (Other, net)	0.8	1.2	(0.4)
Realized/Unrealized Gains (Losses) on Investments	0.1	0.3	(0.2)

(Other, net)			
Pretax Income Effect	$(5.6)	$13.4	$(19.0)

(In millions)	Income (Expense) For the Year Ended December 31 2014	2013	Change
Deferred Compensation (Operating expenses)	$11.9	$(9.5)	$ 21.4 (1)
Investment Income (Other, net)	1.2	1.0	0.2
Realized/Unrealized Gains (Losses) on Investments (Other, net)	0.3	2.5	(2.2)
Pretax Income Effect	$13.4	$(6.0)	$ 19.4

(1) See the applicable Corporate Expenses section of this MD&A for details regarding the period-to-period changes in deferred compensation.

17

Effects of Foreign Currency Translation

The Company's foreign subsidiaries transact business and report financial results in their respective local currencies. As a result, foreign subsidiary income statements are translated into U.S. dollars at average foreign exchange rates appropriate for the reporting period. Because foreign exchange rates fluctuate against the U.S. dollar over time, foreign currency translation affects year-to-year comparisons of financial statement items (i.e., because foreign exchange rates fluctuate, similar year-to-year local currency results for a foreign subsidiary may translate into different U.S. dollar results). The following tables present the effects that foreign currency translation had on the year-over-year changes in consolidated net sales and various income line items for 2015 compared to 2014 and 2014 compared to 2013:

	For the Year Ended			(Decrease) Due
	December 31		Increase	to Foreign Currency
(In millions)	2015	2014	(Decrease)	Translation
Net Sales	$1,776.2	$1,927.2	$ (151.0)	$ (131.8)
Gross Profit	308.2	249.6	58.6	(21.6)
Operating Income	122.8	90.7	32.1	(13.2)
Pretax Income	102.9	75.5	27.4	(12.7)

	For the Year Ended			(Decrease) Due
	December 31		Increase	to Foreign Currency
(In millions)	2014	2013	(Decrease)	Translation
Net Sales	$1,927.2	$1,880.8	$ 46.4	$ (10.8)
Gross Profit	249.6	281.7	(32.1)	(1.9)
Operating Income	90.7	109.2	(18.5)	(1.2)
Pretax Income	75.5	95.6	(20.1)	(1.2)

RESULTS OF OPERATIONS

2015 Compared with 2014

Summary

Net income attributable to the Company for 2015 increased 33 percent to $76.0 million, or $3.32 per diluted share, from $57.1 million, or $2.49 per diluted share, for 2014. Below is a summary discussion of the major factors leading to the year-over-year changes in net sales, profits and expenses. A detailed discussion of segment operating performance for 2015 compared to 2014 follows the summary.

Consolidated net sales declined $151.0 million, or eight percent, between years. A five percent increase in sales volume favorably affected the year-over-year net sales change by $96.6 million. All three segments contributed to the consolidated sales volume improvement. Sales volumes for Surfactants and Polymers grew five percent each, and sales volumes for the Specialty Products segment increased two percent. The positive effect of increased sales volume was more than offset by the unfavorable effects of foreign currency translation and lower selling prices, which accounted for $131.8 million and $115.8 million, respectively, of the year-over-year net sales decline. The unfavorable foreign currency translation effect reflected a stronger U.S. dollar against all currencies of countries where the Company has foreign operations. Selling prices were lower primarily related to certain pass-through contract requirements associated with lower raw materials costs. Overall margins improved slightly. The decline in raw material costs reflected the impacts of decreases in the cost of crude oil and of sluggish economies in China and other emerging market countries.

Operating income for 2015 increased $32.1 million, or 35 percent, over operating income reported for 2014, largely due to improved results for Surfactants and Polymers. Increased deferred compensation expense and the effects of foreign currency translation negatively affected the year-over-year operating income change by $18.4 million and $13.2 million, respectively. Included in the 2015 results was a $2.9 million gain on the divestiture of the Company’s specialty polyurethane systems product line (part of the Polymers segment). See Note 21 to the consolidated financial statements for additional information regarding the sale. In addition, last year’s operating income was unfavorably affected by $4.0 million of restructuring and asset impairment charges and a $2.4 million bad debt charge necessitated when a major Polymer customer filed for bankruptcy protection.

Operating expenses increased $33.5 million, or 22 percent, year over year. Higher deferred compensation, incentive-based compensation and consulting expenses were the major contributors to the increase. The following summarizes the year-over-year changes in the individual income statement line items that comprise the Company's operating expenses:

- Selling expenses increased $0.8 million, or one percent, year over year primarily due to higher global fringe benefit expenses, largely offset by the favorable impact of foreign currency translation ($3.9 million) and a reduction in bad debt expense. U.S. fringe benefit expenses, which accounted for the largest share of the fringe benefit expense increase, were up $5.8 million primarily due to increased incentive-based compensation (i.e., bonuses, profit sharing and stock-based compensation). Prior year bad debt expense included a $2.4 million charge for a Polymer customer that filed for bankruptcy protection.

- Administrative expenses increased $9.5 million, or 14 percent, year over year due to increases for consulting ($5.9 million), fringe benefits ($4.7 million), talent acquisition/relocation ($1.5 million), expatriate ($0.8 million), salaries ($0.7 million) and the accumulation of a number of smaller expense increases. Administrative expenses were up $0.7 million in China, where a new plant is being constructed. Administrative expenses for both Europe and Brazil operations were generally up, but the increases were offset by the favorable effects of foreign currency translation. Partially offsetting the increases were lower environmental remediation expenses ($6.4 million).

The increase in consulting expenses was related to the Company's ongoing initiative to improve efficiency across the Company's global organization (the initiative is referred to as DRIVE within the Company). The contract with the consulting company advising on the DRIVE initiative has expired, so it is expected that such expenses will decline in 2016. Higher incentive-based compensation costs accounted for the increase in fringe benefit expenses. With respect to the decline in environmental remediation expenses, 2014 included a $7.1 million charge to increase the remediation liability for the Company's Maywood, New Jersey, site. The U.S. Environmental Protection Agency issued its record of decision for soil remediation at that site in September 2014, which led to the liability increase.

- Research, development and technical service (R&D) expenses increased $4.8 million, or 11 percent, year over year primarily due to higher fringe benefit expenses ($6.2 million) partially offset by the favorable effects of foreign currency translation ($1.1 million). Increased incentive-based compensation expenses accounted for most of the higher fringe benefit expenses.
- Deferred compensation plan activity resulted in $6.5 million of expense in 2015 compared to $11.9 million of income in 2014. An increase in the value of Company stock for 2015 compared to a decrease in the value of Company common stock for 2014 led to the year-over-year swing in deferred compensation results (see the 'Overview' and 'Corporate Expenses' sections of this MD&A for further details).

Net interest expense for 2015 increased $3.1 million, or 27 percent, over net interest expense for 2014. Higher average debt levels resulting from the July 2015 issuance of $100.0 million in unsecured debt was the principal contributor to the increase. See Note 6 to the consolidated financial statements for further information regarding the new private placement debt.

The loss from the Company's 50-percent equity joint venture (TIORCO) increased $2.0 million year over year largely due to the Company's $2.4 million-share of exit costs recorded by TIORCO in the fourth quarter of 2015. The costs were precipitated by the joint venture partners' agreement to dissolve the venture. See Note 25 to the consolidated financial statements for further information regarding the dissolution of TIORCO.

Other, net income for 2015 increased $0.3 million, or 23 percent, over other, net income for 2014. Foreign exchange activity resulted in a $0.7 million gain in 2015 compared to a $0.2 million loss in 2014. Investment income (including realized and unrealized gains and losses) for the Company's deferred compensation and supplemental defined contribution mutual fund assets declined $0.6 million between years to $0.9 million in 2015 from $1.5 million in 2014.

The effective tax rate was 26.1 percent in 2015 compared to 24.4 percent in 2014. The increase was attributable to certain favorable foreign tax benefits recorded in 2014 that were nonrecurring in 2015, an unrecognized tax benefit recorded in 2015 for prior tax years, and a less favorable geographical mix of income in 2015. The 2015 tax rate was also negatively impacted by the lower tax benefit realized on nontaxable foreign interest income due to higher consolidated income. These items were partially offset by higher U.S. tax credits recorded in 2015. U.S. tax credits included the current year R&D credit, which was permanently extended on December 18, 2015, and the Agricultural Chemicals Security Credit related to the 2011 and 2012 tax returns. See Note 9 to the consolidated financial statements for a reconciliation of the statutory U.S. federal income tax rate to the effective tax rate.

Segment Results

(In thousands)	For the Year Ended			
	December 31,	December 31,		Percent
Net Sales	2015	2014	(Decrease)	Change
Surfactants	$1,205,849	$1,296,638	$(90,789)	-7
Polymers	491,488	550,966	(59,478)	-11
Specialty Products	78,830	79,609	(779)	-1
Total Net Sales	$1,776,167	$1,927,213	$(151,046)	-8

(In thousands)	For the Year Ended			
	December 31,	December 31,	Increase	Percent
Operating Income	2015	2014	(Decrease)	Change
Surfactants	$104,080	$60,778	$ 43,302	71
Polymers	80,942	60,690	20,252	33
Specialty Products	4,397	10,487	(6,090)	-58
Segment Operating Income	$189,419	$131,955	$ 57,464	44
Business Restructuring	—	4,009	(4,009)	-100
Corporate Expenses, Excluding Deferred Compensation	60,129	49,155	10,974	22
Deferred Compensation Expense (Income)	6,500	(11,903)	18,403	NM
Total Operating Income	$122,790	$90,694	$ 32,096	35

Surfactants