

STEPAN CO
Form 10-Q
November 07, 2005

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, 2005

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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act) Yes No

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.

<u>Class</u>	<u>Outstanding at October 31, 2005</u>
Common Stock, \$1 par value	9,015,067 Shares

Part I

FINANCIAL INFORMATION

Item 1 - Financial Statements

STEPAN COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Unaudited

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004	2005	2004
<i>(Dollars in thousands, except per share amounts)</i>				
Net Sales	\$ 265,717	\$ 238,697	\$ 808,322	\$ 696,431
Cost of Sales (Note 11)	232,998	212,490	711,084	610,076
Gross Profit	32,719	26,207	97,238	86,355
Operating Expenses:				
Marketing	7,907	7,066	24,372	21,660
Administrative	9,636	8,353	25,143	26,043
Research, development and technical services	7,122	6,770	22,319	19,516
	24,665	22,189	71,834	67,219
Operating Income	8,054	4,018	25,404	19,136
Other Income/(Expenses):				
Interest, net	(1,994)	(1,704)	(5,799)	(5,557)
Income/(loss) from equity in joint venture	(119)	441	(225)	1,459
Other, net	(122)	11	572	(760)
	(2,235)	(1,252)	(5,452)	(4,858)
Income Before Provision for Income Taxes	5,819	2,766	19,952	14,278
Provision for Income Taxes	1,652	875	6,385	4,555
Minority Interest	(1)	0	20	0
Net Income	\$ 4,166	\$ 1,891	\$ 13,587	\$ 9,723
Net Income Per Common Share (Note 6):				
Basic	\$ 0.44	\$ 0.19	\$ 1.44	\$ 1.02
Diluted	\$ 0.43	\$ 0.19	\$ 1.40	\$ 1.00
Shares Used to Compute Net Income Per Common Share (Note 6):				
Basic	9,006	8,981	8,998	8,964
Diluted	9,757	9,038	9,709	9,696

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Dividends per Common Share	\$ 0.1950	\$ 0.1925	\$ 0.5850	\$ 0.5775
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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

(Dollars in thousands)

	<u>September 30, 2005</u>	<u>December 31, 2004</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 3,878	\$ 6,261
Receivables, net	148,754	135,978
Inventories (Note 3)	90,990	76,176
Deferred income taxes	7,493	7,448
Other current assets	7,669	9,621
	<u>258,784</u>	<u>235,484</u>
Property, Plant and Equipment:		
Cost (Note 10)	795,908	777,463
Less: accumulated depreciation (Note 10)	587,456	568,593
	<u>208,452</u>	<u>208,870</u>
Property, plant and equipment, net	208,452	208,870
Goodwill, net (Note 9)	7,494	7,759
Other intangible assets, net (Note 9)	9,201	10,579
Other non-current assets	29,083	30,084
	<u>29,083</u>	<u>30,084</u>
Total assets	<u>\$ 513,014</u>	<u>\$ 492,776</u>
Liabilities and Stockholders Equity		
Current Liabilities:		
Current maturities of long-term debt	\$ 10,833	\$ 17,973
Accounts payable	97,726	98,322
Accrued liabilities	41,222	41,307
	<u>149,781</u>	<u>157,602</u>
Total current liabilities	149,781	157,602
Deferred income taxes	6,419	7,758
Long-term debt, less current maturities	116,525	94,018
Other non-current liabilities (Note 10)	66,115	64,223
	<u>66,115</u>	<u>64,223</u>
Commitments and Contingencies (Note 4)		
Minority Interest	935	934
Stockholders Equity:		
5-1/2% convertible preferred stock, cumulative, voting without par value; authorized 2,000,000 shares; issued 577,656 shares in 2005 and 581,482 shares in 2004	14,441	14,537
	<u>10,055</u>	<u>10,032</u>

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Common stock, \$1 par value; authorized 30,000,000 shares; issued 10,054,512 shares in 2005 and 10,032,555 shares in 2004		
Additional paid-in capital	24,872	24,449
Accumulated other comprehensive loss (Note 7)	(19,614)	(16,539)
Retained earnings (unrestricted approximately \$34,635 in 2005 and \$31,372 in 2004)	165,096	157,373
Less: Treasury stock, at cost, 1,039,445 shares in 2005 and 2004	(21,611)	(21,611)
	<u>173,239</u>	<u>168,241</u>
Stockholders' equity		
	<u>173,239</u>	<u>168,241</u>
Total liabilities and stockholders' equity	\$ 513,014	\$ 492,776
	<u>\$ 513,014</u>	<u>\$ 492,776</u>

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	
	2005	2004
Cash Flows From Operating Activities		
Net income	\$ 13,587	\$ 9,723
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	29,494	30,564
Deferred income taxes	(1,493)	(1,725)
Other non-cash items	(682)	1,485
Changes in assets and liabilities:		
Receivables, net	(17,089)	(32,745)
Inventories	(15,890)	3,443
Other current assets	1,832	(1,054)
Accounts payable and other accrued liabilities	1,942	4,900
Pension liabilities	2,599	(348)
Environmental and legal liabilities	(601)	(1,579)
Deferred revenues	(168)	(284)
Net Cash Provided by Operating Activities	13,531	12,380
Cash Flows From Investing Activities		
Expenditures for property, plant and equipment	(29,129)	(23,243)
Dividend from Philippine joint venture		1,700
Formation of China joint venture		945
Other non-current assets	(111)	275
Net Cash Used in Investing Activities	(29,240)	(20,323)
Cash Flows From Financing Activities		
Revolving debt and notes payable to banks, net	26,082	17,079
Other debt borrowings	2,734	16,167
Other debt repayments	(10,033)	(16,995)
Dividends paid	(5,864)	(5,779)
Stock option exercises	355	495
Other		