STEPAN CO
Form 10-K
February 27, 2012
Table of Contents

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, 2011

OR

(   ) 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 Chicago Stock Exchange
5 1/2% Convertible Preferred Stock, no par value	New York Stock Exchange Chicago 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 ____ No X

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 ____ 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 ____

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. [ ].

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 ____

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 X 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 X

Aggregate market value at June 30, 2011, of voting and non-voting common stock held by nonaffiliates of the registrant: $588,797,865*

Number of shares outstanding of each of the registrant s classes of common stock as of January 31, 2012:

Class	**Outstanding at January 31, 2012**
Common Stock, $1 par value	10,265,950

Documents Incorporated by Reference

Part of Form 10-K	**Document Incorporated**
Part III, Items 10-14	Proxy Statement for Annual Meeting of Stockholders to be held April 24, 2012.

* Based on reported ownership by all directors, officers and beneficial owners of more than 5% of registrant s voting stock. However, this determination does not constitute an admission of affiliate status for any of these holders.

Table of Contents

STEPAN COMPANY

ANNUAL REPORT ON FORM 10-K

December 31, 2011

Table of Contents

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 then made into 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 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, surfactants for enhanced oil recovery and biodiesel.

Polymers, which include two primary product lines, polyols and phthalic anhydride, are used in multiple types of specialty polymers. Polyurethane polyols are used in the manufacture of rigid foam for thermal insulation in the construction industry. They are also a base for raw material for coatings, adhesives, sealants and elastomers. 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.

Specialty products are chemicals used in food, flavoring and pharmaceutical applications. On June 23, 2011, the Company purchased the Clarinol®, Marinol®, and PinnoThin® product lines of Lipid Nutrition B.V., a part of Loders Croklaan B.V. The acquired product lines are included with the Company s specialty products segment, and provide a unique portfolio of nutritional fats for the global food, supplement and nutrition industries.

MARKETING AND COMPETITION

Principal markets for surfactants are manufacturers of detergents, shampoos, lotions, fabric softeners, toothpastes and cosmetics. In addition, surfactants are sold to the producers of emulsifiers, lubricating products and biodiesel fuel. The Company also is a principal provider of polymers used in construction, refrigeration, automotive, boating and other consumer product industries. Polymer products are also used in the flexible foam industry as well as the coatings, adhesives, sealants and elastomer industries. Specialty products are used primarily by food 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

Table of Contents

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 a leading merchant producer of surfactants in the United States. 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 does not have any one customer whose business represents more than 10 percent of the Company s consolidated revenue. Most of the Company s business is essentially on the spot delivery basis and does not involve a significant backlog. The Company does have contract arrangements with certain customers, but volumes are generally contingent on purchaser requirements.

ENERGY SOURCES

Substantially all of the Company s manufacturing plants operate on electricity and interruptable 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 domestic operations and its wholly-owned subsidiaries 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 2012, 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 2011, 2010 and 2009 were $25.1 million, $24.2 million, and $23.4 million, respectively. The remainder of research, development and technical service expenses reflected on the consolidated statements of income relates to technical services, which include routine product testing, analytical methods development and sales support service.

Table of Contents

ENVIRONMENTAL COMPLIANCE

Compliance with applicable federal, 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 2011. These expenditures represented approximately two percent of the Company s total 2011 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 $16.0 million in 2011. 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, 2011 and 2010, the Company employed 1,848 and 1,768 persons, respectively.

FOREIGN OPERATIONS AND REPORTING SEGMENTS

See Note 18, 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.

Table of Contents

Item 1A. Risk Factors

The following discussion identifies the most significant factors that may 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 those currently expected or desired. The following information should be read in conjunction with Part II, Item 7, Management Discussion and Analysis and the consolidated financial statements and related notes included in this Form 10-K.

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.

Natural disasters, including earthquakes, fires and flooding, work stoppages and terrorism could severely damage the Company s systems and facilities or interrupt the Company s operations and result in a material adverse effect on the Company s business, financial position, results of operations and cash flows.

Natural disasters, such as fires, flooding, earthquakes and tornadoes, power loss, break-ins, work stoppages, acts of war, terrorism or other similar events, could severely damage the Company s systems and facilities or interrupt the Company s operations, potentially resulting in temporary or permanent loss of the Company s manufacturing capability. 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, there can be no assurance that it 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 within some or all of its product categories in each market 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 natural gas prices 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.

Table of Contents

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 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 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, 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. Any infringement on the Company s intellectual property rights would also likely 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, 2011, the Company s sales outside of the U.S. constituted approximately 41

Table of Contents

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:

- foreign currency fluctuations;
- unstable political, economic, financial and market conditions;
- import and export license requirements;
- trade restrictions;
- increases in tariffs and taxes;
- high levels of inflation;
- restrictions on repatriating foreign profits back to the U.S.;
- greater difficulty collecting accounts receivable and longer payment cycles;
- less favorable intellectual property laws;
- changes in foreign laws and regulations; and
- changes in labor conditions and difficulties in staffing and managing international operations.

All of these risks have affected the Company s business in the past and may have a material adverse effect on the Company s business, financial position, results of operations and cash flows in the future.

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.

***We are subject to a variety of environmental, health and safety and product registration laws that expose the Company 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 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 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 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

Table of Contents

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.

Other laws and regulations that apply to the Company may be changed to impose additional requirements beyond those that apply under current laws and regulations, and/or impose additional costs or have negative financial effects on the Company. Such changes, which are unknown at this time and beyond the Company s reasonable control, could have a material impact on the Company.

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 amounts the Company recorded to cover any 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.

We have 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 and operations.

The Company has a significant amount of indebtedness and may incur additional indebtedness in the future. As of December 31, 2011, the Company had $199.5 million of debt on its balance sheet. U.S. debt included $164.9 million in unsecured promissory notes with maturities extending from 2012 until 2023. In addition, to provide liquidity, the Company has a $60 million revolving credit facility and $2.6 million of outstanding letters of credit as of December 31, 2011.

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, 2011, the Company s foreign subsidiaries aggregate outstanding debt totaled $34.6 million.

Table of Contents

The Company s current indebtedness and any additional indebtedness incurred in the future may materially and adversely affect its business and operations. 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 financial positions, results of operations and cash flows may be 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.

Recent disruptions in the credit markets have had a significant negative impact on global financial markets that have resulted in a global economic downturn. Economic downturns adversely affect some users of the variety of end products that are manufactured using the Company s products and the industries in which 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, current 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.

Table of Contents

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

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, 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 financial position, results of operations and cash flows.

Table of Contents

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

The following properties are owned by the Company:

	Name of Facility	Location	Site Size	Product
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.	Stepan France	Grenoble, France	20 acres	Surfactants
7.	Stepan Mexico	Matamoros, Mexico	13 acres	Surfactants
8.	Stepan Germany	Cologne, Germany	12 acres	Surfactants/Polymers
9.	Stepan UK	Stalybridge (Manchester), United Kingdom	11 acres	Surfactants
10.	Stepan Colombia	Manizales, Colombia	5 acres	Surfactants
11.	Company s Headquarters and Central Research Laboratories	Northfield, Illinois	8 acres	N/A
12.	Company s Corporate Supply Chain, Human Resources, Legal and Finance Functions	Northbrook, Illinois	3.25 acres	N/A

In addition, Stepan Canada Inc., which manufactures surfactants, is located on a 70 acre leased, with an option to purchase, site in Longford Mills, Ontario, Canada. Also, Stepan Canada Inc. maintains a leased sales office in Burlington, Ontario, Canada. Stepan Mexico maintains a leased sales office in Mexico City, Mexico. Stepan China, a majority-owned joint venture that produces polymers, is located on a four acre leased site in Nanjing, China. Stepan China also maintains a leased administration building in Nanjing, China, as well as a sales office in Shanghai, China. Under the terms of the purchase contract for its January 2005

acquisition, Stepan Brazil leases a surfactants manufacturing facility on 27 acres of land in Vespasiano, Minas Gerais, Brazil. At the end of the 10-year lease agreement, the assets will be transferred and assigned to Stepan Brazil. The Company s 88.8 percent owned joint venture in the Philippines manufactures surfactants on nine acres of land leased under a long term agreement with the Company s joint venture partner. Stepan Poland operates a polymers manufacturing facility on four acres of leased land in Brzeg Dolny, Poland. Stepan Asia s manufacturing facility located on Jurong Island, Singapore, will operate on eight acres of leased land. Stepan Asia also leases an administration and sales office in Singapore. Stepan Specialty Products B.V. maintains a leased administration and sales office in Amsterdam, Netherlands.

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 completed a Remedial Investigation Feasibility Study (RI/FS) in 1994. The Company submitted the Draft Feasibility Study for Soil and Source Areas (Operable Unit 1) in September 2002. In addition, the Company has submitted other documentation and information as requested by USEPA, including a Draft Final FS for Groundwater (Operable Unit 2) in June 2003, additional information regarding groundwater in May 2007, submission of a Draft Feasibility Study for Soil and Groundwater (Operable Units 1 and 2) in March 2009, and additional requested information regarding soil and groundwater in February 2010 and June 2010. The Company also submitted another Draft Feasibility Study for Soil and Groundwater (Operable Units 1 and 2) in September 2010. The Company is awaiting the issuance of a Record of Decision (ROD) from USEPA.

Table of Contents

The Company believes its recorded liability for claims associated with remediation of chemical contamination at the Maywood site is adequate. However, depending on the results of the ongoing discussions with USEPA, the final cost of such remediation could differ from the current estimates.

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 the second quarter of 2007, the Company reached an agreement with respect to the past costs and future allocation percentage in said litigation for costs related to the D Imperio site, including costs to comply with USEPA s Unilateral Administrative Orders. The Company paid the settlement amount in the third quarter of 2007**.** The resolution of the Company s liability for this litigation did not have a material impact on the financial position, results of operations or cash flows of the Company. In December 2007, the Company received updated remediation cost estimates, which were considered in the Company s determination of its range of estimated possible losses and liability balance.

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.

Ewan Property Site

The case *United States v. Lightman* (1:92-cv-4710 D.N.J.), described above for the D Imperio site, also involved the Ewan Property Site located in New Jersey. The agreement described above also included a settlement with respect to the past costs and future allocation percentage in said litigation for costs related to the past costs and allocation percentage at the Ewan site. The Company paid the settlement amount for the past costs in the third quarter of 2007. The resolution of the Company s liability for this litigation did not have a material impact on the financial position, results of operations or cash flows of the Company.

In addition, the NJDEP filed a natural resource damages complaint in June 2007 against the Company and other entities regarding the Ewan site. The Company was served with the complaint in May 2008. The parties, including the Company, settled this litigation in the fourth quarter of 2010. The resolution of the Company s liability for this litigation did not have a material impact on the financial position, results of operations or cash flows of the Company.

There is some monitoring and operational work continuing at the Ewan site. Based on current information, the Company believes that its recorded liability for claims associated with the Ewan site is adequate. However, actual costs could differ from current estimates.

Lightman Drum Company Superfund Site

The Company received a Section 104(e) Request for Information from USEPA dated March 21, 2000, regarding the Lightman Drum Company Superfund Site located in Winslow Township, New Jersey. The Company responded to this request on May 18, 2000. In addition, the Company received a Notice of Potential Liability and Request to Perform RI/FS dated June 30, 2000, from USEPA. The Company participated in the performance of the RI/FS as a member of the Lightman Yard PRP Group. The RI/FS was performed under an interim allocation.

In the fourth quarter of 2007, the PRPs who agreed to conduct the interim remedial action entered into an Administrative Settlement Agreement and Order on Consent for Removal Action with USEPA, and these PRPs also entered into a Supplemental Lightman Yard Participation and Interim Funding Agreement to fund the agreed-upon removal action. The Company paid a soil removal assessment upon execution of the agreements which did not have a material impact on the financial position, results of operations or cash flows of the Company. The soil removal action was completed and USEPA approved it in October 2009. A final Feasibility Study was submitted to USEPA in February 2009 and was approved in March 2009. In June 2009, USEPA issued a Proposed Plan for Remediation. In September 2009, USEPA signed the Record of Decision. USEPA issued an Administrative Order for Remedial Design and Remedial Action to some of the PRPs in June 2010 which requires the PRPs to implement the remedy USEPA selected in the ROD. The Company executed a Master PRP Agreement with a final allocation which was effective September 30, 2010. A second ROD for the soils operable unit was issued by USEPA in September 2011.

The Company believes that based on current information its recorded liability for claims associated with the Lightman 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 $2.0 million for the Company s portion of environmental response costs through the third quarter of 2011 (the current owner of the site bills the Company one calendar quarter in arrears). 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.

Table of Contents

In addition, in response to the special notice letter received by the PRPs in June 2006 from USEPA seeking performance of an RI/FS at the site, certain PRPs, including the Company, signed an Administrative Settlement Agreement and Order on Consent for the RI/FS effective July 2007, which sets forth the obligations of the PRPs to perform the RI/FS.

The Company and other prior owners also entered into an agreement in April 2004 waiving certain statute of limitations defenses for claims which may be filed by the Town of Wilmington, Massachusetts, in connection with this site. While the Company has denied any liability for any such claims, the Company agreed to this waiver while the parties continue to discuss the resolution of any potential claim which may be filed.

The Company believes that based on current information its recorded liability for for the claims related to this site is adequate. However, actual costs could differ from 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.

Table of Contents

Item 4. Mine Safety Disclosures

Not Applicable.

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 27, 2012, are as follows:

Name	Age	Title	Year First Elected Officer
F. Quinn Stepan	74	Chairman	1967
F. Quinn Stepan, Jr.	51	President and Chief Executive Officer	1997
John V. Venegoni	53	Vice President and General Manager Surfactants	1999
Robert J. Wood	54	Vice President and General Manager Polymers	2001
James E. Hurlbutt	58	Vice President and Chief Financial Officer	2002
Frank Pacholec	56	Vice President, Research and Development and Corporate Sustainability Officer	2003
Gregory Servatius	52	Vice President, Human Resources	2006
H. Edward Wynn	51	Vice President, General Counsel and Secretary	2007
Scott C. Mason	53	Vice President, Supply Chain	2010

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.

John V. Venegoni has served the Company as Vice President and General Manager Surfactants since February 1999. From May 1996 until February 1999 he served as Director Global Personal Care. From May 1992 until May 1996 he served as Senior Business Manager Consumer Products.

Robert J. Wood has served the Company as Vice President and General Manager Polymers since January 2001. From March 1996 until January 2001, he served as Director Polyols. From April 1988 until March 1996, he served as Business Manager Polyols.

17

Table of Contents

James E. Hurlbutt has served the Company as Vice President and Chief Financial Officer since February 12, 2008. From February 2005 until February 2008, he served the Company as Vice President   Finance. From February 2002 until February 2005, he served the Company as Vice President and Controller. From August 1996 until February 2002, he served as Controller   International and Tax Accounting.

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 Stepan s European operation.

H. Edward Wynn has served the Company as Vice President, General Counsel and Secretary since January 9, 2007. From August 2005 until December 2006, he served as Chief Administrative Officer and General Counsel of Heritage Development Partners, LLC.

Scott C. Mason has served the Company as Vice President, Supply Chain since March 10, 2010. From January 2006 until December 2009, he served as Senior Vice President Global Supply Chain and President, Alternative Channels of Nalco Company.

Table of Contents

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 and the Chicago Stock Exchange. See table below for New York Stock Exchange quarterly market price information.

Quarterly Stock Data

	Stock Price Range			
	2011		2010	
Quarter	**High**	***Low***	*High*	*Low*
First	**$ 78.86**	**$ 68.62**	$ 67.67	$ 45.99
Second	**$ 75.22**	**$ 62.65**	$ 79.75	$ 54.95
Third	**$ 82.15**	**$ 65.39**	$ 72.17	$ 53.55
Fourth	**$ 83.65**	**$ 64.64**	$ 76.99	$ 59.00
Year	**$ 83.65**	**$ 62.65**	$ 79.75	$ 45.99

The Company s 5 1/2 percent convertible preferred stock is listed and traded on the New York Stock Exchange and the Chicago Stock Exchange. See Note 11, Stockholders Equity of the Consolidated Financial Statements (Item 8 of this Form 10-K) for a description of the preferred stockholders rights.

On February 11, 2009, the Company s Board of Directors authorized the Company to repurchase up to 500,000 shares of its outstanding common stock, or the equivalent in shares of the Company s preferred stock. 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. The repurchase authorization represented approximately five percent of the Company s total shares of common stock outstanding at February 11, 2009. This repurchase authorization replaced the 300,000 share authorization approved on February 10, 2004, of which the remaining unutilized repurchase authorization of 111,256 shares was cancelled. During 2011, 23,145 shares of Company common stock were purchased in the open market, 16,643 shares of common stock were received in lieu of cash from employees exercising stock options and 17,942 shares of common stock were received to settle employees minimum statutory withholding taxes related to performance stock awards. The purchased and received shares were recorded as treasury stock in the Company s balance sheet. As of December 31, 2011, 210,927 shares remain available for repurchase.

(b) On January 31, 2012, there were 1,461 holders of record of common stock of the Company.

Table of Contents

(c) Below is a summary by month of share purchases by the Company during the fourth quarter of 2011:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October	2,988	$ 66.52		
November				
December				

(d) See table below for quarterly dividend information.

Dividends Declared Per Common Share

Quarter	***2011***	*2010*
First	**$ 0.26**	$ 0.24
Second	**$ 0.26**	$ 0.24
Third	**$ 0.26**	$ 0.24
Fourth	**$ 0.28**	$ 0.26
Year	**$ 1.06**	$ 0.98

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 7, 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, 2011. In addition to the restrictions of the debt agreements, no dividends on Company common stock may be declared and paid unless all accumulated and unpaid preferred dividends have been paid (see Note 11, Stockholders Equity, of the consolidated financial statements). To date, there are no unpaid preferred dividends.

Table of Contents

(e) Stock Performance Graph

The following stock performance graph compares the yearly change since December 31, 2006, 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 37 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 was a part of the Russell 2000 Index during 2011. The graph assumes $100 was invested on December 31, 2006, and shows the cumulative total return as of each December 31 thereafter.

Table of Contents

Item 6. Selected Financial Data

See the table below for selected financial information.

(In thousands, except per share data)

For the Year	***2011***	*2010*	*2009*	*2008*	*2007*
Net Sales	**$ 1,843,092**	$ 1,431,122	$ 1,276,382	$ 1,600,130	$ 1,329,901
Operating Income	**118,456**	107,897	104,888	70,680	35,095
Percent of Net Sales	**6.4%**	7.5%	8.2%	4.4%	2.6%
Income Before Provision for Income Taxes	**104,894**	101,479	97,131	54,878	23,715
Percent of Net Sales	**5.7%**	7.1%	7.6%	3.4%	1.8%
Provision for Income Taxes	**32,292**	35,888	34,028	17,615	8,687
Net Income Attributable to Stepan Company	**71,976**	65,427	63,049	37,172	15,118
Per Diluted Share [(a)]	**6.42**	5.90	5.84	3.52	1.50
Percent of Net Sales	**3.9%**	4.6%	4.9%	2.3%	1.1%
Percent to Total Stepan Company Stockholders Equity [(b)]	**19.2%**	20.5%	25.3%	17.9%	7.8%
Cash Dividends Paid	**11,513**	10,570	9,557	8,863	8,431
Per Common Share	**1.0600**	0.9800	0.9000	0.8500	0.8250
Depreciation and Amortization	**47,099**	40,351	37,171	36,928	37,176
Capital Expenditures	**83,166**	73,748	42,631	49,778	39,815
Weighted-average Common Shares Outstanding (Diluted)	**11,220**	11,090	10,796	10,549	10,113
As of Year End					
Working Capital	**$246,516**	$222,199	$186,297	$116,288	$92,954
Current Ratio	**2.1**	2.1	2.1	1.5	1.5
Property, Plant and Equipment, net	**383,983**	353,585	248,618	238,166	234,062
Total Assets	**901,118**	811,431	634,203	611,897	573,185
Long-term Debt Obligations, Less Current Maturities	**164,967**	159,963	93,911	104,725	96,939
Total Stepan Company Stockholders Equity	**401,211**	349,491	289,285	208,144	206,051

(a) Based on weighted-average number of common shares outstanding during the year.
(b) Based on average equity.

22

Table of Contents

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

Except for the historical statements contained in this report, the matters discussed in the following discussion and analysis 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 and similar 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 74 percent of consolidated net sales in 2011, are principal ingredients in consumer and industrial cleaning products such as detergents for washing clothes, dishes, carpets, floors and walls, as well as shampoos, body washes, toothpastes and fabric softeners. Other applications include germicidal quaternary compounds, lubricating ingredients, emulsifiers (for spreading agricultural products), plastics and composites and biodiesel. 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), three Latin American sites (Mexico, Brazil and Colombia) and one Asian site (Philippines; the Company acquired controlling interest in Stepan Philippines Inc. (SPI) in the third quarter of 2010). Also in the third quarter of 2010, the Company purchased manufacturing assets in Jurong Island, Singapore, and initiated the development of a methyl esters plant in that location. Commercial production of methyl esters at the Singapore plant is expected in the second quarter of 2012. The Company also holds a 50 percent ownership interest in a joint venture, TIORCO, LLC (TIORCO), that markets chemical solutions for increasing the production of crude oil and natural gas from existing fields. The joint venture is accounted for under the equity method, and its financial results are excluded from surfactant segment operating results.

Polymers Polymers, which accounted for 23 percent of consolidated net sales in 2011, include two primary product lines: polyols and phthalic anhydride. Polyols are used in the manufacture of rigid laminate insulation board for thermal insulation in the construction industry. Polyols are also a base raw material for flexible foams, coatings, adhesives, sealants and elastomers. 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, phthalic

Table of Contents

anhydride is used internally in the production of polyols. In the U.S., polymer product lines are manufactured at the Company s Millsdale, Illinois, site. In Europe, polyols are manufactured at the Company s subsidiaries in Germany and Poland. The Poland entity was acquired in the third quarter of 2010. In Asia, polyols are produced at the Company s 80-percent owned joint venture in Nanjing, China.

Specialty Products Specialty products, which accounted for three percent of consolidated net sales in 2011, include flavors, emulsifiers and solubilizers used in the food and pharmaceutical industries. Specialty products are primarily manufactured at the Company s Maywood, New Jersey, site. In the second quarter of 2011, the Company purchased three product lines from Lipid Nutrition B.V. (Lipid Nutrition), a part of Loders Croklaan B.V. See the 2011 Acquisition section that follows for details of that transaction.

All three segments have growth strategies that require investment outside of North America. Recent global initiatives include surfactant investments in Brazil and Singapore, polymer investments in Germany and Poland and a specialty products investment in the Netherlands (Lipid Nutrition). These growth activities have resulted in higher near-term costs while facilitating the Company s long-term growth strategies.

2011 Acquisition

On June 23, 2011, the Company purchased the Clarinol®, Marinol®, and PinnoThin® product lines of Lipid Nutrition. The acquired product lines are included in the Company s specialty products segment, and provide a portfolio of nutritional fats for the food, supplement and nutrition industries. The acquired product lines are produced at the Company s Maywood, New Jersey, plant and outside contract manufacturers. The purchase price of the acquisition, which included $5.0 million of inventory, was $13.6 million of cash.

2010 Acquisitions

On July 2, 2010, the Company purchased the manufacturing assets of Peter Cremer GmbH s 100,000 ton per year methyl esters plant located on Jurong Island in Singapore. The Company is installing methyl esters fractionation capability on the site. Methyl esters are a core building block of the Company s surfactants segment, and the acquisition of the Jurong Island manufacturing assets provides the Company an opportunity to reach its global customer base with methyl esters and value added derivatives made from tropical oils available in the region. The Company plans for the site to begin methyl esters production in the second quarter of 2012. The purchase price of the manufacturing assets was $10.4 million.

On July 15, 2010, the Company s Stepan Europe subsidiary acquired all the shares of Alfa Systems Sp. z o.o. The purchase included a polyol plant and related manufacturing assets in Brzeg Dolny, Poland. The acquisition provides the Company s polymer segment with production capability in Eastern Europe and the ability to economically and effectively serve customers in Central and Eastern Europe. The Company recognized $10.1 million as the purchase price for Alfa Systems, comprised of $8.5 million of cash and $1.6 million in contingent consideration.

Table of Contents

On July 19, 2010, the Company acquired controlling interest of SPI, raising the Company s ownership interest in the entity from 50 percent to 88.8 percent. The Company paid $3.7 million of cash to acquire the interests of one owner, transferred $2.0 million of cash to SPI as an additional capital investment and capitalized a $3.9 million liability originally due the Company pursuant to a royalty agreement between the Company and SPI. The Company also guaranteed approximately $8.7 million of debt owed by SPI to a related party of the selling partner.

Deferred Compensation Plans

The accounting for the Company s deferred compensation plans can cause year-over-year fluctuations in Company profits. Compensation expense results when the values of Company common stock and mutual funds held for the plans increase, and compensation income results when the values of Company common stock and mutual funds held for the plans decrease. 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) for the years ended December 31, 2011, 2010 and 2009, and the statement of income line items in which the effects of the activities were recorded are displayed in the following tables:

(In millions)	Income (Expense) For the Year Ended December 31		
	2011	2010	Change
Deferred Compensation (Administrative expense)	($1.5)	($5.0)	$3.5 [1]
Investment Income (Other, net)	0.1	0.1	-
Realized/Unrealized Gains (Losses) on Investments (Other, net)	(0.1)	1.4	(1.5)
Pretax Income Effect	($1.5)	($3.5)	$2.0

(In millions)	Income (Expense) For the Year Ended December 31		
	2010	2009	Change
Deferred Compensation (Administrative expense)	($5.0)	($7.0)	$2.0 [1]
Investment Income (Other, net)	0.1	0.1	-
Realized/Unrealized Gains (Losses) on Investments (Other, net)	1.4	1.9	(0.5)
Pretax Income Effect	($3.5)	($5.0)	$1.5

(1) See the applicable Corporate Expenses section of this management s discussion and analysis for details regarding the period-to-period change in deferred compensation.

Table of Contents

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 2011 compared to 2010 and 2010 compared to 2009:

(In millions)	Year Ended December 31 2011	2010	Increase	Increase Due to Foreign Translation
Net Sales	$ 1,843.1	$ 1,431.1	$ 412.0	$ 27.6
Gross Profit	255.6	236.0	19.6	2.5
Operating Income	118.5	107.9	10.6	1.2
Pretax Income	104.9	101.5	3.4	1.0

(In millions)	Year Ended December 31 2010	2009	Increase	Increase Due to Foreign Translation
Net Sales	$ 1,431.1	$ 1,276.4	$ 154.7	$ 3.9
Gross Profit	236.0	233.1	2.9	1.4
Operating Income	107.9	104.9	3.0	1.3
Pretax Income	101.5	97.1	4.4	1.1

Table of Contents

RESULTS OF OPERATIONS

2011 Compared with 2010

Summary

Net income, attributable to the Company for 2011, increased 10 percent to $72.0 million, or $6.42 per diluted share, compared to $65.4 million, or $5.90 per diluted share, for 2010. A detailed discussion of segment operating performance follows the summary.

Consolidated net sales increased $412.0 million, or 29 percent, between years. Higher average selling prices, a three percent improvement in sales volume and the favorable effects of foreign currency translation accounted for approximately $340.6 million, $43.8 million and $27.6 million, respectively, of the increase. Higher year-over-year raw material costs were the primary drivers for the increase in average selling prices. Sales volume was up for all three reportable segments. The foreign currency translation effect reflected a weaker U.S. dollar against all foreign currencies in which the Company transacts business.

The Company s 2011 operating income grew $10.6 million, or 10 percent, over 2010 operating income. Gross profit increased $19.6 million, or eight percent, primarily on improved results for the surfactants and polymers segments. Gross profit for the specialty products segment was also up year-over-year due to the new Lipid Nutrition product line acquired in the second quarter of 2011. The favorable effects of foreign currency translation added $2.5 million to the year-over-year increase in gross profit.

Operating expenses increased $9.0 million, or seven percent, year over year primarily due to the following:

Marketing expenses, which include selling expenses, increased $5.5 million, or 14 percent, year over year. Expenses related to the Company s growth initiatives in Singapore, Brazil and Poland and the consolidation of the Philippines entity accounted for $2.6 million of the increase. In addition, first-time marketing expenses related to the product lines acquired in the Lipid Nutrition acquisition (completed in the second quarter of 2011) added $1.6 million. U.S. travel-related expenses were up $0.6 million, and the effects of foreign currency translation contributed $0.6 million of the year-over-year change.

Administrative expenses increased $1.3 million, or three percent, due to $1.4 million of added expenses related to the acquired entities that were not consolidated until the third quarter of 2010 and $1.1 million of legal and environmental expenses. The comparative increase in legal and environmental expenses was the result of favorable nonrecurring adjustments made in 2010 reflecting the reduction of the Company s clean-up cost liability at two sites. In addition to the foregoing, expenses related to the acquired Lipid Nutrition product lines, increased expenses in Brazil to support the growth opportunities in Latin America and higher salary expense in the U.S. contributed $0.6 million, $0.4 million and $0.4 million, respectively, to the increase. The effects of foreign currency translation added $0.6 million to the increase. Lower deferred compensation expense reduced the year-over-year increase in administrative expenses by $3.5 million. See the Overview and Corporate Expenses sections of this management discussion and analysis for details regarding deferred compensation.

Research, development and technical service expenses were up $2.2 million, or six percent. An increase in U.S. expenses ($2.7 million), largely due to additional staff and salary expenses, was partially offset by lower product registration expenses under Europe s Registration, Evaluation, Authorization of Chemical Substances (REACH) regulation ($0.9 million). Increased expenses for Poland ($0.3 million), which reflected a full year of expenses compared to a partial year in 2010, also contributed to the year-over-year increase.

Interest expense, net, for 2011 was up $2.8 million, or 43 percent, between years. Higher average borrowing levels led to the increase. The rise in the average debt levels was, in part, attributable to working capital requirements that were driven higher by raw material cost inflation. In addition, in November 2011 and June 2010, the Company secured $65 million and $40 million of additional long-term notes, respectively, to take advantage of low interest rates and support global growth initiatives.

The loss from equity joint ventures, which included results for TIORCO for 2011 and the results for TIORCO and SPI for the first three quarters of 2010 (the 2010 amount included SPI results for the first half of the year plus part of the third quarter), increased $2.0 million year over year. SPI s equity income in the prior year was $1.2 million, which included a $0.7 million gain related to revaluing the Company s original 50 percent interest in SPI as part of the 2010 acquisition of controlling interest in the entity. The TIORCO joint venture is primarily a cost sharing venture with Nalco Company (now a part of Ecolab Inc.), as the Company sells surfactants directly into the enhanced recovery market and the corresponding profit resides in the surfactants segment operating results. As planned, the equity loss in TIORCO increased $0.8 million year over year.

Other, net was $0.9 million of expense for 2011 compared to $1.6 million of income for 2010. Investment losses, attributable to the Company s deferred compensation and supplemental defined contribution plan mutual fund investments, amounted to $0.1 million for 2011 compared to $1.5 million of gains for 2010. The Company reported foreign exchange losses of $0.8 million 2011 versus $0.1 million of gains in the same period of 2010.

The effective tax rate was 30.8 percent in 2011 compared to 35.4 percent in 2010. The decrease was primarily attributable to the implementation of a holding company structure that will provide a recurring benefit in lowering the effective tax rate on foreign earnings. Also contributing to the decrease was a non-recurring provision in the prior year related to the purchase of an increased ownership in SPI and a dividend from the Company s subsidiary in Colombia. An increase in U.S. credits also contributed to the lower effective tax rate, but this was offset by the enactment of a higher Illinois corporate income tax rate in 2011. See Note 10 to the consolidated financial statements for a reconciliation of the statutory U.S. federal income tax rate to the effective tax rate.

Table of Contents

Segment Results

(In thousands)	Surfactants	Polymers	Specialty Products	Segment Results	Corporate	Total
For the year ended December 31, 2011						
Net sales	$ 1,361,956	$ 421,515	$ 59,621	$ 1,843,092		$ 1,843,092
Operating income	100,811	40,909	13,307	155,027	(36,571)	118,456
For the year ended December 31, 2010						
Net sales	$ 1,057,982	$ 330,416	$ 42,724	$ 1,431,122		$ 1,431,122
Operating income	93,010	36,904	14,499	144,413	(36,516)	107,897

Surfactants

Surfactants net sales for 2011 increased $304.0 million, or 29 percent, over net sales for 2010. Higher average selling prices, primarily due to higher raw material costs, accounted for $264.5 million of the net sales change. Sales volume grew by two percent, largely due to new business in Latin America and the inclusion of a full year of Philippine subsidiary results in 2011 compared to five months in 2010. Sales volume accounted for approximately $19.2 million of the net sales improvement. The favorable effects of foreign currency translation added $20.3 million to the favorable change between years. A year-over-year comparison of net sales by region follows:

(In thousands)	For the Year Ended December 31, 2011	December 31, 2010	Increase	Percent Change
North America	$ 839,940	$ 679,810	$ 160,130	+24
Europe	317,629	248,749	68,880	+28
Latin America	147,614	110,896	36,718	+33
Asia	56,773	18,527	38,246	+206
Total Surfactants Segment	$ 1,361,956	$ 1,057,982	$ 303,974	+29

Net sales for North American operations increased 24 percent due to a 28 percent increase in average selling prices and the favorable effect of foreign currency translation, which accounted for $181.6 million and $2.8 million, respectively, of the net sales change. A four percent decline in sales volume reduced the year-over-year change by $24.3 million. The increase in average selling prices was primarily attributable to higher year-over-year raw material costs. Raw material prices rose through the first three quarters of 2011 and began to decline in the fourth quarter. A more favorable sales mix also contributed to the improvement in average selling prices. Sales volume declined largely due to a decrease in laundry and cleaning product sales partially offset by increased sales of agricultural surfactants and biodiesel products. The decline in laundry and cleaning products volume resulted from nonrecurring business in the prior year and weaker demand brought on in part by changes in customer product formulations. Stronger demand from all major customers and new business led to the better year-over-year sales volume of agricultural products. The escalating cost of crude oil led to new customers for the Company s biodiesel products. Total North American sales volume for the fourth quarter of 2011 was up three percent over the same period of 2010, somewhat reversing the trend of the first three quarters.

Net sales for European operations increased 28 percent due to a 28 percent increase in average selling prices and the favorable effects of foreign currency translation, which accounted for $66.9 million and $13.0 million, respectively, of the net sales increase. Sales volume declined four percent between years, which reduced the year-over-year change by $11.0 million. Rising raw material costs drove average selling prices higher between years. A strengthening of the European euro and British pound sterling against the U.S. dollar in the first three quarters of 2011 led to the favorable foreign currency translation effect. The sales volume decline was attributable to the UK subsidiary where some laundry and cleaning and personal care business was lost due to price competition.

Net sales for Latin American operations improved 33 percent due to a 13 percent increase in average selling prices and a 14 percent increase in sales volume, which accounted for $16.9 million and $15.8 million, respectively, of the year-over-year net sales change. The favorable effects of foreign currency translation contributed $4.0 million to the net sales growth. Sales volume increased for all three Latin American subsidiaries, with the Brazil facility posting a 22 percent increase due to business gained as a result of the location s additional neutralizing capacity. The higher average selling prices were largely attributable to increased raw material costs. The strengthening of all three locations currencies against the U.S. dollar led to the favorable currency translation effect.

The net sales increase for Asia operations reflected a full year of sales for the Company s Philippines subsidiary in 2011 compared to approximately five months of sales in 2010. Excluding the additional months included in the current year s results, sales volume was up 17 percent over last year.

Table of Contents

Surfactants operating income for 2011 was $7.8 million higher than operating income for 2010. Gross profit increased $13.7 million principally due to the effects of improved margins in North America and the inclusion of the Philippines income in segment results. Lower European operations gross profit, due to reduced sales volume and higher manufacturing expenses, and lower Latin America gross profit, largely due to costs related to the start up of the neutralizer expansion in Brazil, negatively impacted surfactants gross profit. Operating expenses increased $5.9 million, or eight percent. Year-over-year comparisons of gross profit by region and total segment operating expenses and operating income follow:

(In thousands)	For the Year Ended			
	December 31, 2011	December 31, 2010	Increase (Decrease)	Percent Change
Gross Profit				
North America	$ 138,578	$ 124,456	$ 14,122	+11
Europe	22,114	24,451	(2,337)	-10
Latin America	12,633	14,697	(2,064)	-14
Asia	5,192	1,201	3,991	+332
Total Surfactants Segment	$ 178,517	$ 164,805	$ 13,712	+8
Operating Expenses	77,706	71,795	5,911	+8
Operating Income	$ 100,811	$ 93,010	$ 7,801	+8

Gross profit for North American operations improved 11 percent year-over-year despite a four percent decline in sales volume. A more favorable sales mix and the previously noted increase in average selling prices more than offset the impact of the decrease in sales volume. In addition, 2010 gross profit was negatively affected by expenses associated with a one-month lockout of hourly workers at the Company s Millsdale (Illinois) plant related to a labor agreement dispute.

Gross profit for European operations declined 10 percent due to lower sales volume and higher manufacturing expenses. Manufacturing expenses were up about $2.9 million, or 10 percent, year-over-year primarily as a result of increased maintenance costs for the United Kingdom and Germany facilities. In addition, the effects of a planned three-week shutdown for a mandatory inspection at the Company s Germany subsidiary contributed to the rise in manufacturing expenses. The favorable effects of foreign currency translation lessened the year-over-year decline in gross profit by $0.9 million.

Gross profit for Latin American operations declined 14 percent despite the 14 percent increase in sales volume. One-time costs related to a delay in the start up of the recent neutralizer capacity expansion project in Brazil and increased manufacturing costs attributable to the new neutralization capabilities more than offset the effect of the higher sales volume. In addition to the costs for Brazil, the decline in gross profit also reflected selling price increases that lagged raw material cost increases, particularly for the Mexico subsidiary. With spending on these one-time activities complete, fourth quarter 2011 gross profit exceeded fourth quarter 2010 gross profit by $1.2 million, or 42 percent.

31

Table of Contents

The $4.0 million gross profit increase for Asia operations reflected a full year of profit for the Company s Philippines subsidiary in 2011 compared to only five months of gross profit in 2010, when it was first consolidated after securing majority ownership. In addition, the current year results benefited from a $1.4 million recovery of value added tax receivables, which were reserved for in a prior year due to collection uncertainty.

Operating expenses for the surfactants segment increased $5.9 million, or eight percent, year over year. Higher expenses for North American operations ($3.7 million), additional expenses for the Singapore and Philippines locations, which were first consolidated in the third quarter of 2010 ($1.7 million), and the effects of foreign currency translation ($1.1 million) accounted for most of the operating expense increase. The increase in North America operating expenses was attributable to higher research and development ($2.1 million) and marketing expenses ($1.8 million). Higher salary and temporary help expenses accounted for the increased North America research and development expense. Increased support expenses for the expanding Asia operations accounted for most of the increase in North American marketing expense. The remainder of the year-over-year difference was attributable to lower European operation expenses ($1.9 million) partially offset by higher Latin American operation expenses ($1.4 million).

Polymers

Polymers net sales for 2011 increased $91.1 million, or 28 percent, over net sales for 2010. Higher average selling prices, a nine percent improvement in sales volume and the favorable effects of foreign currency translation accounted for $55.3 million, $28.4 million and $7.4 million, respectively, of the increase. The higher average selling prices reflected increased costs for raw materials. All regions contributed to the improvement in sales volume. A year-over-year comparison of net sales by region is displayed below:

(In thousands)	For the Year Ended			
	December 31, 2011	December 30, 2010	Increase	Percent Change
North America	$ 259,713	$ 213,223	$ 46,490	+22
Europe	133,375	96,463	36,912	+38
Asia and Other	28,427	20,730	7,697	+37
Total Polymers Segment	$ 421,515	$ 330,416	$ 91,099	+28

Net sales for North American operations increased 22 percent due to a 16 percent increase in average selling prices and a five percent increase in sales volume, which accounted for $36.1 million and $10.4 million, respectively, of the net sales improvement. Higher raw material costs across all polymer product lines led to the higher average selling prices. Sales volume for polyols increased 12 percent largely due to increased demand from existing rigid insulation board customers. Sales volume for phthalic anhydride declined three percent due to weaker demand from polyester resin customers.

Net sales for European operations increased 38 percent due to a 15 percent rise in average selling prices, a 15 percent improvement in sales volume and the favorable effects of foreign currency translation, which accounted for $16.6 million, $14.1 million and $6.2

32

million, respectively, of the net sales growth. The higher average selling prices reflected higher year-over-year raw material costs. The increase in sales volume resulted from stronger demand from most major rigid insulation board customers and new demand for metal panel insulation and adhesive applications. In addition, the Company s Poland subsidiary, which was acquired in the third quarter of 2010, accounted for 51 percent of the year-over-year sales volume growth.

Net sales for Asia and Other operations increased 37 percent year-over-year due to a 20 percent increase in sales volume, a nine percent increase in average selling prices and the favorable effects of foreign currency translation, which accounted for $4.1 million, $2.4 million and $1.2 million, respectively, of the rise in net sales. New business for the China subsidiary led to the improvement in sales volume.

Polymer operating income for 2011 improved $4.0 million, or 11 percent, over operating income for 2010. Gross profit increased $6.2 million, as all three regions posted gains. Operating expenses increased $2.2 million, or 12 percent. Below are year-over-year comparisons of gross profit by region and total segment operating expenses and operating income:

(In thousands)	For the Year Ended			
	December 31, 2011	December 31, 2010	Increase	Percent Change
Gross Profit				
North America	$ 44,296	$ 41,821	$ 2,475	+6
Europe	14,803	12,087	2,716	+22
Asia and Other	2,455	1,434	1,021	+71
Total Polymers Segment	$ 61,554	$ 55,342	$ 6,212	+11
Operating Expenses	20,645	18,438	2,207	+12
Operating Income	$ 40,909	$ 36,904	$ 4,005	+11

Gross profit for North American operations was up six percent principally due to the five percent increase in sales volume. Unit margins were up year-over-year, but higher raw material costs pushed margins lower in the fourth quarter, particularly for the phthalic anhydride product line. A seven percent increase in manufacturing expenses, primarily due to increases in depreciation and personnel related expenses, negatively affected the year-over-year change in gross profit.

Gross profit for European operations increased 22 percent due to the 15 percent improvement in sales volume and $0.8 million in favorable foreign currency translation impact. Current year unit margins approximated those of the prior year. The impact of selling price increases was largely offset by the effects of higher raw material costs and costs to outsource polyols from the segment s North American operations as a result of fire damage to one of the Company s polyol reactors in Germany that occurred in the second quarter of this year. The damaged equipment was placed back into service in the fourth quarter. Property insurance is expected to cover the costs to repair the asset. The potential benefit of any recovery under business interruption insurance will not be recorded until a settlement is finalized.

Table of Contents

Gross profit for Asia and Other operations increased 71 percent due to selling price increases and to the 20 percent growth in sales volume.

Operating expenses increased $2.2 million year-over-year due to higher marketing ($1.0 million), research and development ($0.8 million) and administrative expenses ($0.4 million) expenses. Increased travel, salary and fringe benefit expenses, partially offset by reductions in bad debt expense, and the inclusion of a full year of Poland subsidiary expenses accounted for the higher marketing expenses. Increased salary expenses coupled with the inclusion of a full year of Poland subsidiary expenses accounted for the rise in research and development expenses. European and Asia operations each accounted for about half of the increase in administrative expenses.

Specialty Products

Net sales for 2011 increased $16.9 million, or 40 percent, over net sales for 2010 largely due to sales related to the new Lipid Nutrition product lines ($13.7 million) and to an 11 percent increase in sales volume for food ingredient products. Operating income was down $1.2 million, or eight percent, between years primarily due to higher food ingredient raw material costs, for which competitive pressures have made it difficult to raise selling prices. The Lipid Nutrition product lines positively affected the segment s year-over-year results, adding $1.2 million of operating income.

Corporate Expenses

Corporate expenses of $36.6 million for 2011 were $0.1 million higher than corporate expenses reported for 2010. Deferred compensation expense declined $3.5 million year-over-year, but was offset by increases in a number of other expenses, notably a $1.1 million comparative increase in legal and environmental expenses, $0.9 million of higher expense resulting from derivative income reported in 2010 arising from recording certain electric contracts at fair value (the Company held no such contracts during 2011) and a $0.4 million increase in salary expense. The comparative increase in legal and environmental expenses reflected favorable adjustments made in 2010 as a result of the reduction of the Company s clean-up cost liability at two sites. Increases in other corporate expenses, such as hiring, temporary help and patent fees, contributed to offsetting the effect of deferred compensation.

With respect to deferred compensation, a smaller year-to-year increase in the value of Company stock and declines in the values of the mutual fund assets held to fund the deferred compensation obligations led to the lower year-over-year deferred compensation expense. The value of Company common stock increased $3.89 per share from $76.27 per share at December 31, 2010, to $80.16 per share at December 31, 2011. For 2010, the Company s common stock price increased $11.46 per share from $64.81 per share at December 31, 2009, to $76.27 per share at December 31, 2010.

2010 Compared with 2009

Summary

Net income attributable to the Company for 2010 increased four percent to $65.4 million, or $5.90 per diluted share, compared to $63.0 million, or $5.84 per diluted share, for 2009.

Table of Contents

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 2010 follows the summary.

Consolidated net sales for 2010 increased $154.7 million, or 12 percent, over net sales for 2009. Higher average selling prices, higher sales volumes and the effects of foreign currency translation accounted for approximately $82.8 million, $68.0 million and $3.9 million, respectively, of the year-over-year increase in net sales. Average selling prices increased primarily due to rising raw material costs. Sales volumes grew five percent, due to increases for both the surfactants and polymers segments. Specialty products reported a small year-over-year sales volume decrease.

Operating income for 2010 improved by $3.0 million, or three percent, over operating income for 2009. Gross profit increased $2.9 million, or one percent. Gross profits were up between years for polymers and specialty products, but down for surfactants. Higher raw material costs negatively impacted profit margins for both the surfactants and polymers segments. In addition, 2010 gross profit included expenses related to a lockout of the hourly workers at the Company s Millsdale (Illinois) manufacturing site. A labor agreement dispute led to the lockout. During the lockout period the plant was operated by salaried personnel. The effects of foreign currency translation contributed $1.4 million to the year-over-year consolidated gross profit improvement.

Operating expenses declined $0.1 million, or less than one percent, year over year due to the following:

- Marketing expenses decreased $0.2 million, or less than one percent. Bad debt expense declined $2.3 million, which reflected lower provision requirements throughout the Company s global organization. The lower bad debt expense was largely offset by increased salary expense, including increased headcount to support the acquisition in Singapore.

- Administrative expenses declined $1.8 million, or three percent, due to a $2.1 million decline in environmental remediation expenses and a $2.0 million reduction in deferred compensation expense. The decrease in environmental remediation expenses resulted primarily from the reduction of the Company s clean-up cost liabilities at two sites. The reduction in deferred compensation expense was primarily attributable to changes in the price of Company common stock to which a large part of the deferred compensation obligation is tied. See the Overview and Corporate Expenses sections of this management discussion and analysis for further details. The impact of the foregoing was partially offset by the first-time consolidation of administrative expenses of the facilities in Poland, Singapore and Philippines ($1.4 million) and higher global consulting expenses ($0.5 million).

- Research and development expenses increased $1.8 million, or five percent, primarily due to increased expenses for salaries, product testing and compliance and the registration of Company products under Europe s Registration, Evaluation, Authorization and Restriction of Chemical Substances (REACH) regulation.

Table of Contents

Interest expense for 2010 was $0.1 million, or one percent, higher than interest expense for 2009. Higher average debt levels led to the increase. The higher debt levels reflected $40 million in new private placement notes entered into in June 2010. The Company secured the additional long-term notes to take advantage of the low interest rate environment and to support global growth initiatives. See the Liquidity and Financial Condition section of this management discussion and analysis.

The loss from equity joint ventures, which includes results for the 50-percent owned SPI (through July 19, 2010, when the Company acquired controlling interest in SPI) and TIORCO joint ventures, declined $2.0 million between years. Equity in SPI s income improved $2.3 million year over year. The improvement was attributable in part to higher sales volumes and margins. In addition, the Company recorded a $0.7 million gain related to revaluing its original 50 percent interest in the joint venture as part of the Company s acquisition of controlling interest in SPI. The prior year SPI results included approximately $1.2 million of expense for the reserve of disputed receivable balances. The equity loss in TIORCO increased $0.3 million between years. The Company also sells surfactant products to TIORCO and its customers. The sales and resulting income from the sales are included in the Company s surfactants segment operating results.

Other, net was income of $1.6 million for 2010 compared to income of $2.2 million for 2009. Most of the decline was attributable to investment related income that was $0.6 million lower in 2010 than in 2009.

The effective tax rate was 35.4 percent in 2010 compared to 35.0 percent in 2009. The increase in the effective tax rate was primarily attributable to a lower tax benefit realized on foreign joint venture equity income and tax provided on a dividend from the Company s subsidiary in Colombia. These increases were partially offset by an increase in the domestic production activities deduction. See Note 10 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)	Surfactants	Polymers	Specialty Products	Segment Results	Corporate	Total
For the year ended December 31, 2010						
Net sales	$1,057,982	$330,416	$42,724	$1,431,122		$1,431,122
Operating income	93,010	36,904	14,499	144,413	(36,516)	107,897
For the year ended December 31, 2009						
Net sales	$972,647	$260,770	$42,965	$1,276,382		$1,276,382
Operating income	98,947	33,957	12,621	145,525	(40,637)	104,888

Surfactants

Surfactants net sales for 2010 increased $85.3 million, or nine percent, over net sales for 2009. Higher average selling prices, a four percent increase in sales volume and the effects of

foreign currency translation accounted for $39.8 million, $36.2 million and $9.3 million, respectively, of the net sales change. A year-to-year comparison of net sales by region follows:

(In thousands)	For the Year Ended December 31, 2010	December 31, 2009	Increase	Percent Change
North America	$ 679,810	$ 647,304	$ 32,506	+5
Europe	248,749	226,138	22,611	+10
Latin America	110,896	99,205	11,691	+12
Asia	18,527	-	18,527	NM
Total Surfactants Segment	$ 1,057,982	$ 972,647	$ 85,335	+9

Net sales for North American operations increased five percent due to a three percent increase in average selling prices, the effects of foreign currency translation and a small increase in sales volume (less than one percent), which accounted for $22.1 million, $7.4 million and $3.0 million, respectively, of the net sales change. The higher average selling prices reflected higher raw material costs. The cost of raw materials, which fell significantly during the economic recession of 2009, moved higher throughout 2010. Sales volume, which was essentially unchanged between years, reflected fourth quarter sales volume that was nine percent below the sales volume reported in the fourth quarter of 2009. The quarter-over-quarter decline was primarily attributable to weaker demand for the Company s consumer products (i.e., laundry, cleaning and personal care products) due to weaker retail demand and customers year-end inventory adjustments. The foreign currency translation effect resulted from the strengthening of the Canadian dollar against the U.S. dollar.

Net sales for European operations increased 10 percent due to a 10 percent increase in average selling prices and a three percent increase in sales volume, which accounted for $22.3 million and $7.5 million, respectively, of the net sales change. Higher raw material costs caused the increase in average selling prices. The effects of foreign currency, which reflected a weakening of European euro against the U.S. dollar, reduced the net sales change by $7.2 million.

Net sales for Latin American operations were up 12 percent between years due to the effects of foreign currency translation and a five percent increase in sales volume, which accounted for $9.1 million and $4.6 million, respectively, of the net sales change. A two percent decline in average selling prices reduced the net sales change by $2.0 million. The favorable currency translation effect resulted from the strengthening of the currencies for all three Latin American locations against the U.S. dollar. New business at the region s Brazil subsidiary was a major contributor to the year-over-year sales volume growth. Increased fabric softener sales also contributed.

The $18.5 million of net sales for Asia operations reflected sales by the Company s Philippine subsidiary for the period after the Company acquired controlling interest in July 2010.

Surfactants operating income for 2010 declined $5.9 million, or six percent, from operating income for 2009. Gross profit declined $5.2 million, or three percent. The decline was primarily attributable to lower margins in Europe, coupled with higher costs in North America brought about by a labor dispute. Year-to-year comparisons of gross profit by region and total segment operating expenses and operating income follow:

(In thousands)	For the Year Ended			
	December 31, 2010	December 31, 2009	Increase (Decrease)	Percent Change
Gross Profit				
North America	$ 124,456	$ 126,160	$ (1,704)	-1
Europe	24,451	30,067	(5,616)	-19
Latin America	14,697	13,756	941	+7
Asia	1,201	-	1,201	NM
Total Surfactants Segment	$ 164,805	$ 169,983	$ (5,178)	-3
Operating Expenses	71,795	71,036	759	+1
Operating Income	$ 93,010	$ 98,947	$ (5,937)	-6

Gross profit for North American operations declined one percent primarily due to incremental costs incurred for a lockout of hourly workers at the Company s Millsdale (Illinois) manufacturing site related to a labor agreement dispute. The previously noted decrease in fourth quarter sales volume also contributed to the decline. The effect of foreign currency translation reduced the unfavorable year-over-year gross profit change by $1.2 million.

Gross profit for European operations declined 19 percent as a result of the negative impact of higher raw material costs, which more than offset the effect of the three percent sales growth. Selling prices were increased, but did not keep pace with the rising costs of materials. The effect of foreign currency translation added $0.7 million to the year-over-year gross profit decline.

Gross profit for Latin American operations was up seven percent due to the favorable effects of foreign currency translation, which accounted for $1.4 million of the year-to year gross profit change. The remainder of the change (i.e., a $0.4 million decline in gross profit) was attributable to higher raw material costs and manufacturing expenses. The higher manufacturing expenses related to a maintenance turnaround at the Brazil plant

The $1.2 million of gross profit for Asia operations reflected profits earned by the Company s Philippine subsidiary for the period after the Company acquired controlling interest in July 2010.

Operating expenses for the surfactants segment were up $0.8 million, or one percent, year over year. The increase primarily consisted of $1.7 million of higher research and development expenses partially offset by a $0.8 million decline in marketing expenses. The rise in research and development expenses included increases of $0.9 million and $0.8 million for North American and European operations, respectively. The higher research and development expenses for North American operations reflected the Company s continued commitment to drive commercial success of its innovation projects, which resulted in higher

38

Table of Contents

salaries and travel expenses. Most of the increase in research and development expense for European operations was due to expenses related to registering the Company s products under Europe s REACH regulation. The lower marketing expenses resulted from a decline in bad debt expenses in North America ($1.5 million) and Europe ($0.6 million). The reduction in bad debt expenses was attributable to a decline in provisions for identified high-risk accounts. Partially offsetting the decline in bad debt expense were higher North America operation expenses for salaries, travel and consulting expenses reflecting increased resources to support the Company s Asian growth initiatives.

Polymers

Polymers net sales for 2010 increased $69.6 million, or 27 percent, over net sales for 2009. Higher average selling prices and a 14 percent increase in sales volume accounted for $38.0 million and $37.0 million, respectively, of the increase in net sales. The effects of foreign currency translation reduced the year-over-year change in net sales by $5.4 million. A year-to-year comparison of net sales by region is displayed below:

(In thousands)	For the Year Ended December 31, 2010	December 31, 2009	Increase	Percent Change
North America	$ 213,223	$ 175,915	$ 37,308	+21
Europe	96,463	72,229	24,234	+34
Asia and Other	20,730	12,626	8,104	+64
Total Polymers Segment	$ 330,416	$ 260,770	$ 69,646	+27

Net sales for North American operations grew 21 percent due to a 12 percent increase in average selling prices and an eight percent increase in sales volume, which accounted for $23.5 million and $13.8 million, respectively, of the increase in net sales. Higher raw material costs led to the increase in average selling prices. Sales volume for polyols and phthalic anhydride increased 13 percent and two percent, respectively, which reflected improved economic conditions in the industries to which the polymer segment sells as well as new business for polyols.

Net sales for European operations increased 34 percent due to a 25 percent increase in sales volume and a 13 percent increase in average selling prices, which accounted for $18.3 million and $11.5 million, respectively, of the net sales increase. New business and improved demand for polyol used in rigid insulation foam led to the growth in sales volume. The region s Poland facility, acquired in the third quarter of 2010, was an insignificant contributor to the year s sales results. The average selling price increase was primarily attributable to higher raw material costs. The effects of foreign currency translation reduced the year-to-year net sales change by $5.6 million, which reflected the weakening of the European euro against the U.S. dollar.

Asia and Other operations net sales were up 64 percent year over year largely due to a 44 percent increase in sales volume. The growth in sales volume was primarily due to new business for the Company s China subsidiary. An improved economy also contributed.

Table of Contents

Polymers operating income for 2010 increased $2.9 million, or nine percent, from operating income for 2009. Gross profit grew $3.7 million, or seven percent, primarily due to improvement in North America. Operating expenses increased $0.8 million, or four percent, year over year. Below are year-to-year comparisons of gross profit by region and total segment operating expenses and operating income:

(In thousands)	For the Year Ended December 31, 2010	December 31, 2009	Increase (Decrease)	Percent Change
Gross Profit				
North America	$ 41,821	$ 33,821	$ 8,000	+24
Europe	12,087	16,424	(4,337)	-26
Asia and Other	1,434	1,382	52	+4
Total Polymers Segment	$ 55,342	$ 51,627	$ 3,715	+7
Operating Expenses	18,438	17,670	768	+4
Operating Income	$ 36,904	$ 33,957	$ 2,947	+9

Gross profit for North American operations increased 24 percent largely due to the eight percent improvement in sales volume and better profit margins for the region s phthalic anhydride product line. Phthalic anhydride margins were detrimentally affected in 2009 by lower than usual production volumes and high priced material in inventory that was accumulated near the end of 2008 (and carried over into 2009) prior to the significant recession-driven decline in commodity costs. Partially offsetting the effects of improved phthalic anhydride profitability was the negative impact that rising raw material costs had on profit margins for polyol products. Selling prices for polyols were increased during 2010, but did not keep pace with raw material costs that increased on average by about 20 percent.

European operations gross profit declined 26 percent despite the 25 percent increase in sales volume. The negative effects of rising raw material costs and the outsourcing of product from the segment s North American operations due to capacity constraints more than offset the positive impact of the growth in sales volume. As previously noted, selling price increases were made, but did not keep pace with increases in raw material costs. The addition of the Poland subsidiary to the region had little effect on year-over-year results.

Asia and Other operations gross profit increased four percent due to increased sales volume.

The $0.8 million increase in operating expenses was largely due to higher expenses for North American ($0.6 million) and European operations ($0.5 million), partially offset by the effects of foreign currency translation ($0.2 million). Increased marketing expenses, due to higher salary ($0.3 million) and travel related ($0.3 million) expenses, caused the North American expense increase. The addition of the Poland subsidiary s operating expenses led to the increase in European operations expenses.

Specialty Products

Net sales for 2010 were $0.2 million, or one percent, lower than net sales for 2009. Lower sales volume led to the decline. Sales volume declined two percent, which was primarily driven by lower sales of products used in food and flavoring applications. Operating income was up $1.9 million, or 15 percent, year over year due to lower raw material costs and increased sales of higher margin products.

Corporate Expenses

Corporate expenses declined $4.1 million, or 10 percent, to $36.5 million in 2010 from $40.6 million in 2009. Year-over-year decreases of $2.1 million for environmental remediation expense and $2.0 for deferred compensation expense accounted for most of the corporate expense reduction. The $2.1 million decline in environmental remediation expense resulted from the reduction of the Company s liabilities for the clean-up costs at two sites. Deferred compensation expense was $5.0 million in 2010 compared to $7.0 million in 2009. The decline in deferred compensation expense was principally attributable to changes in the value of Company common stock to which a large portion of the deferred compensation obligation is tied. 2010 deferred compensation expense reflected an $11.46 per share increase in Company common stock from $64.81 per share at December 31, 2009, to $76.27 per share at December 31, 2010, compared to 2009 when the Company s common stock price increased $17.82 per share from $46.99 per share at December 31, 2008, to $64.81 per share at December 31, 2009.

Outlook

The investments made by the Company over the last two years to accelerate its growth create the opportunity for continued earnings improvement in 2012. Surfactant growth will come from the Company s expanded operations in Brazil and continued growth in higher value functional surfactants used in agricultural, oilfield and enhanced oil recovery.

Polyol volume is projected to grow in 2012 as recommendations to use higher insulation levels to reduce energy consumption are implemented. The polyol expansion in Germany was completed in 2011. Volume growth for the Company s polyol has been strong primarily for use in the manufacturing of insulation for the retrofit of commercial roofing. The eventual recovery of the new commercial construction market, while not expected in 2012, will create additional demand for the Company s polyol.

Specialty Products is positioned for growth in 2012 based on last year s Lipid Nutrition product line acquisition.

In 2011 the Company achieved its fourth consecutive record income year and its forty-fourth consecutive annual dividend increase. The Company has a strong balance sheet and is positioned to grow and deliver value to its shareholders.

Liquidity and Financial Condition

For 2011, the Company generated $77.4 million from operations, borrowed $19.3 million and reduced cash by $27.1 million to fund investing activities of $101.4 million and other

Table of Contents

financing outflows of $21.4 million, with exchange rates decreasing cash by $1.0 million. For the current year, net income was up by $7.0 million and working capital consumed $5.5 million more than last year. Investing cash outflows for 2011 increased by $4.1 million compared to 2010. Financing activities for 2011 included repayment of a $12.2 million build-to-suit obligation and comprised a total net outflow of $2.1 million compared to a net inflow of $42.4 million in 2010.

For 2011, changes in accounts receivable were a cash use of $60.8 million versus a use of $34.4 million in 2010. Inventories were a use of $12.9 million for 2011 compared to a use of $17.0 million in 2010. Accounts payable and accrued liabilities comprised a source of $25.9 million for 2011 versus a source of $7.4 million for 2010.

For 2011, raw material inflation was a major factor in higher working capital and the Company s cash flow. The Company s working capital investment is heavily influenced by the cost of crude oil and natural oils, from which many of its raw materials are derived. Higher raw material costs translate directly to higher inventory carrying costs and indirectly to customer selling prices and accounts receivable.

The year-over-year accounts receivable increase was driven mainly by higher current sales, primarily in the final two months of 2011, compared to the period in 2010. The higher current period sales were driven mainly by higher selling prices as well as higher sales quantities. Accounts receivable turnover did not change significantly between years. For inventories, about two-thirds of the year-over-year inventory increase was from higher raw material costs with the balance from higher planned quantities for better customer service levels. The Company has not changed its own payment practices related to its payables. It is management s opinion that the Company s liquidity is sufficient to provide for potential increases in working capital during 2012.

Investing cash outflows for 2011 totaled $101.4 million compared to $97.3 million for 2010. Capital expenditures for 2011 totaled $83.2 million, up by $9.4 million compared to $73.7 million for 2010. Investing outflows for 2011 included $13.6 million for the purchase of certain product lines of Lipid Nutrition B.V., a part of Loders Croklaan B.V. The purchase price included $5.0 million of inventory. Investing activities for 2010 included $10.4 million for the purchase of manufacturing assets in Singapore, $9.8 million for acquisitions of 100 percent of Alfa Systems Sp. z o.o., in Brzeg Dolny, Poland, and an additional 38.8 percent of the Company s Stepan Philippines Inc. joint venture. During 2011 the Company liquidated $1.6 million of investments for benefit plan participant payouts versus $0.8 million in 2010.

For 2012, the Company estimates that capital expenditures will be in a range of $100 million to $110 million, including completion of a capacity expansion in Singapore.

The Company is authorized to purchase its common shares in the open market from time to time to fund its own deferred compensation plans and also to mitigate the dilutive effect of new shares issued under these plans. The Company may also make open market repurchases as cash flows permit when, in management s opinion, the Company s shares are undervalued in the market. During 2011, the Company purchased 23,145 common shares in the open market at a total cost of $1.5 million. As of December 31, 2011, there were 210,927 shares remaining under the current share repurchase authorization.

At December 31, 2011, the Company s cash and cash equivalents totaled $84.1 million, including $59.9 million in U.S. money market funds. U.S. demand deposits totaled $5.8 million and cash of the Company s non-U.S. subsidiaries totaled $18.4 million.

Consolidated debt increased by $7.9 million during 2011, from $191.6 million to $199.5 million, with U.S. debt up $19.6 million and foreign debt down $11.7 million. The U.S. debt increase was driven by a new $65.0 million long-term loan, partially offset by long-term debt repayments of $34.0 million and liquidation of the build-to-suit obligation discussed previously. The foreign debt decrease included the repayment of a $13.0 million seller note incurred during 2010 with the purchase of manufacturing assets in Singapore.

Net debt (which is defined as total debt minus cash) increased by $35.0 million year-over-year, from $80.4 million to $115.4 million. At December 31, 2011, the ratio of total debt to total debt plus shareholders equity was 33.0 percent compared to 35.2 percent at December 31, 2010. The ratio of net debt to net debt plus shareholders equity was 22.1 percent at December 31, 2011, compared to 18.5 percent at December 31, 2010.

On November 1, 2011, the Company completed a new $65.0 million private placement loan with a fixed interest rate of 4.86 percent and final maturity in 2023. The proceeds of this loan were used, in part, for repayment of the remaining balance of a $25.5 million U.S. bank term loan and a $13.0 million seller note, with the balance to be used for capital expenditures and other corporate purposes.

At December 31, 2011, the Company s debt included $164.9 million of unsecured private placement loans with maturities extending from 2012 through 2023. These loans are the Company s primary source of long-term debt financing and are supplemented by bank credit facilities to meet short and medium-term needs.

The Company maintains a committed $60.0 million revolving credit agreement with three U.S. banks. This unsecured facility is the Company s primary source of short-term borrowings and is committed through August 27, 2013 with terms and conditions that are substantially equivalent to those of the Company s other U.S. loan agreements. As of December 31, 2011, the Company had outstanding letters of credit of $2.6 million under this agreement with no borrowings, leaving $57.4 million remaining available. The Company anticipates that cash from operations, committed credit facilities and cash on hand will be sufficient to fund anticipated capital expenditures, working capital, dividends and other planned financial commitments throughout 2012.

Certain foreign subsidiaries of the Company maintain term loans and short-term bank lines of credit in their respective local currencies to meet working capital requirements as well as to fund capital expenditure programs and acquisitions. As of December 31, 2011, the Company s European subsidiaries had bank term loans of $11.0 million with maturities through 2016 and short-term bank debt of $16.3 million with additional short-term borrowing capacity of $19.5 million. The Company s Latin American subsidiaries had no outstanding debt, with $8.9 million of additional short-term borrowing capacity. The Company s majority-owned joint ventures in the Philippines and China had debt totaling $7.3 million and additional borrowing capacity of $9.2 million. The Company has guaranteed the debt obligations of its majority-owned joint ventures in the Philippines and China.

The Company has material debt agreements that require the maintenance of minimum interest coverage and minimum net worth. These agreements also limit the incurrence of

Table of Contents

additional debt as well as the payment of dividends and repurchase of treasury shares. Testing for these agreements is based on the combined financial statements of the U.S. operations of Stepan Company, Stepan Canada Inc., Stepan Specialty Products, LLC, Stepan Specialty Products B.V. and Stepan Asia Pte. Ltd. (the Restricted Group). Under the most restrictive of these debt covenants:

1. The Restricted Group must maintain a minimum interest coverage ratio, as defined within the agreements, of 2.0 to 1.0, for the preceding four calendar quarters.

2. The Restricted Group must maintain net worth of at least $175.0 million.

3. The Restricted Group must maintain a ratio of long-term debt to total capitalization, as defined in the agreements, not to exceed 55 percent.

4. The Restricted Group may pay dividends and purchase treasury shares in amounts of up to $30.0 million plus 100 percent of net income and cash proceeds of stock option exercises, measured cumulatively after December 31, 2001. The maximum amount of dividends that could have been paid within this limitation is disclosed as unrestricted retained earnings in Note 7, Debt, in the Notes to Consolidated Financial Statements.

The Company was in compliance with all of its loan agreements as of December 31, 2011. Based on current projections, the Company believes it will be in compliance with its loan agreements throughout 2012.

Contractual Obligations

At December 31, 2011, the Company s contractual obligations, including estimated payments by period, were as follows:

(In thousands)		Payments Due by Period			
		Less than			More than
	Total	**1 year**	**1-3 years**	**3 5 years**	**5 years**
Long-term debt obligations	$ 199,454	$ 34,487	$ 29,585	$ 24,666	$ 110,716
Interest payments on debt obligations [a]	59,238	9,850	16,534	13,448	19,406
Capital lease obligations	1,041	347	694		
Operating lease obligations	32,016	4,191	6,070	3,830	17,925
Purchase obligations [b]	18,305	17,437	868		
Other [c]	23,833	8,681	2,030	980	12,142
Total	$ 333,887	$ 74,993	$ 55,781	$ 42,925	$ 160,188

(a)

Interest payments on debt obligations represent interest on all Company debt at December 31, 2011. The interest payment amounts related to the variable rate component of the Company s debt assume that interest will be paid at the rates prevailing at December 31, 2011. Future interest rates may change, and therefore, actual interest payments would differ from those disclosed in the above table.

Table of Contents

(b) Purchase obligations consist of raw material, utility and telecommunication service purchases made in the normal course of business.

(c) The Other category comprises deferred revenues that represent commitments to deliver products; expected 2012 required contributions to the Company s funded defined benefit pension plans; estimated payments related to the Company s unfunded defined benefit supplemental executive and outside director pension plans; estimated payments (undiscounted) related to the Company s asset retirement obligations; and environmental remediation payments for which amounts and periods can be reasonably estimated.

The above table does not include $71.7 million of other non-current liabilities recorded on the balance sheet at December 31, 2011, as summarized in Note 16 to the consolidated financial statements. The significant non-current liabilities excluded from the table are defined benefit pension, deferred compensation, environmental and legal liabilities and unrecognized tax benefits for which payment periods can not be reasonably determined. In addition, deferred income tax liabilities are excluded from the table due to the uncertainty of their timing.

Pension Plans

The Company sponsors a number of defined benefit pension plans, the most significant of which cover employees in its U.S. and U.K. locations. The U.S. and U.K. plans have been frozen, and service benefit accruals are no longer being made. The underfunded status of the Company s defined benefit pension plans increased $3.3 million year-over-year, from $32.7 million at December 31, 2010, to $36.0 million at December 31, 2011. Year-over-year declines in the discount rates used to measure pension obligations (34 and 70 basis point declines for the U.S. and U.K. plans, respectively) led to an increase in pension liabilities. Pension plan asset gains were less than expected and did not keep pace with the increase in pension liabilities. The Company contributed $4.2 million to its funded defined benefit pension plans in 2011. The Company expects to contribute approximately $7.6 million to the plans in 2012. Payments to participants in the unfunded non-qualified plans will approximate $0.3 million in 2012 compared to $0.2 million in 2011.

Letters of Credit

The Company maintains standby letters of credit under its workers compensation insurance agreements and for other purposes as needed. The insurance letters of credit are renewed annually and amended to the amounts required by the insurance agreements. As of December 31, 2011, the Company had a total of $2.6 million in outstanding standby letters of credit.

Off-Balance Sheet Arrangements

The Securities and Exchange Commission requires disclosure of off-balance sheet arrangements that either have, or are reasonably likely to have, a current or future effect on the Company s financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Table of Contents

During the periods covered by this Form 10-K, the Company was not party to any such off-balance sheet arrangements.

Environmental and Legal Matters

The Company s operations are subject to extensive local, state and federal regulations. Although the Company s environmental policies and practices are designed to ensure compliance with these laws and regulations, future developments and increasingly stringent environmental regulation could require the Company to make additional unforeseen environmental expenditures. The Company will continue to invest in the equipment and facilities necessary to comply with existing and future regulations. During 2011, the Company s expenditures for capital projects related to the environment were $1.7 million. These projects are capitalized and depreciated 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 the Company s manufacturing locations were approximately $16.0 million for 2011, $15.7 million for 2010 and $15.4 million for 2009. While difficult to project, it is not anticipated that these recurring expenses will increase significantly in the future.

Over the years, the Company has received requests for information related to or has been named by the government as a potentially responsible party at a number of waste disposal sites where cleanup costs have been or may be incurred under CERCLA and similar state statutes. In addition, damages are being claimed against the Company in general liability actions for alleged personal injury or property damage in the case of some disposal and plant sites. The Company believes that it has made adequate provisions for the costs it may incur with respect to the sites. See the Critical Accounting Policies section that follows for a discussion of the Company s environmental liabilities accounting policy. After partial remediation payments at certain sites, the Company has estimated a range of possible environmental and legal losses from $8.8 million to $28.6 million at December 31, 2011, compared to $10.0 million to $29.7 million at December 31, 2010. At December 31, 2011, the Company s accrued liability for such losses, which represents the Company s best estimate within the estimated range of possible environmental and legal losses, was $14.6 million compared to $15.9 million at December 31, 2010. Because the liabilities accrued are estimates, actual amounts could differ from the amounts reported. During 2011, cash outlays related to legal and environmental matters approximated $4.9 million compared to $2.7 million expended in 2010. Remediation of the soil at the Poland subsidiary accounted for most of the year-over-year change. A substantial portion of the remediation cost was paid from a purchase price holdback agreed to at the date of the Poland site acquisition (see the Poland Manufacturing Site discussion in Note 17).

For certain sites, the Company has responded to information requests made by federal, state or local government agencies but has received no response confirming or denying the Company s stated positions. As such, estimates of the total costs, or range of possible costs, of remediation, if any, or the Company s share of such costs, if any, cannot be determined with respect to these sites. Consequently, the Company is unable to predict the effect thereof on the Company s financial position, cash flows and results of operations. Given the information available, management believes the Company has no liability at these sites. However, in the event of one or more adverse determinations with respect to such sites in any annual or interim period, the effect on the Company s cash flows and results of operations for those periods could be material. Based upon the Company s present knowledge with respect to its involvement at these sites, the possibility of other viable entities responsibilities for cleanup, and the extended period over which any costs would be incurred, the Company believes that these matters, individually and in the aggregate, will not have a material effect on the Company s financial position.

See Item 3, Legal Proceedings, in this Form 10-K and in other filings of the Company with the Securities and Exchange Commission, which are available upon request from the Company. See also Note 17, Contingencies, in the Notes to Consolidated Financial Statements for a summary of the significant environmental proceedings related to certain environmental sites.

Climate Change Legislation

Based on currently available information, the Company does not believe that existing or pending climate change legislation or regulation is reasonably likely to have a material effect on the Company s financial condition, results of operations or cash flows.

Critical Accounting Policies

The Company prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles). Preparation of financial statements in accordance with generally accepted accounting principles requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The following is a summary of the accounting policies the Company believes are the most important to aid in understanding its financial results.

Deferred Compensation

The Company sponsors deferred compensation plans that allow management employees to defer receipt of their bonuses and outside directors to defer receipt of their director fees until retirement, departure from the Company or as elected by the participant. The Company funds its obligations associated with these plans by purchasing investment assets that match the investment choices made by the plan participants. The investment options include Company common stock and a limited selection of mutual funds. The Company maintains sufficient shares of treasury stock to cover the equivalent number of shares resulting from participants electing the Company common stock option. As a result, the Company must periodically purchase its common shares on the open market. The plans allow for the deferred compensation to grow or decline based on the results of the investment options chosen by the participants.

Some plan distributions may be made in cash or Company common stock at the election of the participant. Certain plan distributions can only be made in Company common stock. Upon retirement or departure from the Company, participants receive cash amounts equivalent to the payment date value of the investment choices they have made or Company common stock shares equal to the number of share equivalents held in their accounts. For deferred compensation obligations that may be settled in cash, appreciation in the value of Company common stock or the mutual fund options under the plan results in additional compensation expense to the Company. Conversely, declines in the value of Company stock or the mutual funds result in a reduction of compensation expense since such declines reduce the cash obligation of the Company as of the date of the financial statements. These market price movements may result in significant period-to-period fluctuations in the Company s income. Because the obligations that must be settled only in Company common stock are treated as equity instruments, fluctuations in the market price of the underlying Company stock do not affect earnings.

At December 31, 2011, the Company s deferred compensation liability was $32.4 million, of which approximately 66 percent represented deferred compensation tied to the performance of the Company s common stock; the remainder was tied to the mutual fund investment choices. A $1.00 increase in the market price of the Company s common stock will result in approximately $0.3 million of additional compensation expense. A $1.00 reduction in the market price of the common stock will reduce compensation expense by a like amount. The expense or income associated with the mutual fund component will generally fluctuate in line with the overall percentage increase or decrease of the U.S. stock markets.

The mutual fund assets related to the deferred compensation plans are recorded on the Company s balance sheet at cost when acquired and adjusted to their market values at the end of each reporting period. As allowed by generally accepted accounting principles, the Company elected the fair value option for recording the mutual fund investment assets. Therefore, market value changes for the mutual fund investment assets are recorded in the income statement in the same periods that the offsetting changes in the deferred compensation liabilities are recorded. Dividends, capital gains distributed by the mutual funds, unrealized gains and losses and realized gains and losses from sales of mutual fund shares, are recognized as investment income/loss in the other, net line of the consolidated statements of income.

Environmental Liabilities

It is the Company s accounting policy to record environmental liabilities when environmental assessments and/or remedial efforts are probable and the cost or range of possible costs can be reasonably estimated. When no amount within a range of possible costs is a better estimate than any other amount, the minimum amount in the range is accrued. Some of the factors on which the Company bases its estimates include information provided by feasibility studies, potentially responsible party negotiations and the development of remedial action plans.

Estimates for environmental liabilities are subject to significant fluctuations as new facts emerge related to the various sites where the Company is exposed to liability for the

Table of Contents

remediation of environmental contamination. See the Environmental and Legal Matters section of this MD&A for discussion of the Company s recorded liabilities and range of loss estimates.

Revenue Recognition

Revenue is recognized upon shipment of goods to customers, at which time title and risk of loss pass to the customer. For arrangements where the Company consigns product to a customer location, revenue is recognized when the customer uses the inventory. The Company records shipping and handling billed to a customer in a sales transaction as revenue. Costs incurred for shipping and handling are recorded in cost of sales. Volume discounts due customers are estimated and recorded in the same period as the sales to which the discounts relate and reported as reductions of revenue in the consolidated statements of income.

Recent Accounting Pronouncements

See Note 1 to the consolidated financial statements, included in Part II, Item 8, for information on recent accounting pronouncements, which affect the Company.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

FOREIGN CURRENCY EXCHANGE RISK

Because the Company operates globally, its cash flows and operating results are subject to movements in foreign currency exchange rates. The Company manufactures and sells products in many foreign locations and, therefore, believes its currency exchange risk is well diversified. Except as noted below, substantially all the Company s foreign subsidiaries financial instruments are denominated in their respective functional currencies. Gains and losses on unhedged foreign currency transactions are recorded in income.

The Company uses forward contracts to mitigate the exposure of certain foreign currency transactions and balances to fluctuating exchange rates. At December 31, 2011, the Company had forward contracts to sell $9.7 million on behalf of subsidiaries in Canada, Mexico, and Poland. At year end the Company had forward contracts to buy $14.4 million on behalf of subsidiaries in the Netherlands, France, the Philippines and Germany. The Company had forward contracts to sell EUR 1.6 million and buy EUR 0.4 million on behalf of its subsidiaries in Poland and the U.K., respectively. At December 31, 2011 the Company had one forward contract to purchase SGD 6.8 million on behalf of a subsidiary in Singapore where the functional currency is the U.S. dollar.

Periodically, the Company and its subsidiaries issue U.S. dollar and euro denominated trade receivables or loans to each other. Gains and losses on these transactions are included in income. Foreign currency exposures for the Company s Canadian and European subsidiaries are essentially all covered by forward contracts as noted above. As of December 31, 2011, the Company had net receivables of $3.7 million due from its Brazilian subsidiary. Hypothetical fluctuations of 10 percent in the exchange rate of the Brazilian real would result in a gain or loss of $0.4 million.

INTEREST RATES

The Company s debt was made up of fixed-rate and variable-rate borrowings totaling $169.7 million and $29.7 million, respectively, as of December 31, 2011. For 2012, it is projected that interest on short-term variable-rate borrowings will total approximately $1.4 million. A hypothetical 10 percent average change to short-term interest rates would result in a $0.1 million increase or decrease to interest expense for 2012.

The fair value of the Company s long term fixed-rate debt, including current maturities, was estimated to be $176.9 million as of December 31, 2011, which was approximately $7.1 million above the carrying value. Market risk was estimated as the potential increase to the fair value that would result from a hypothetical 10 percent decrease in the Company s weighted average long-term borrowing rates at December 31, 2011, or $4.3 million.

COMMODITY PRICE RISK

Certain raw materials used in the manufacture of the Company s products are subject to price volatility caused by weather, petroleum prices, general economic demand and other unpredictable factors. Increased raw material costs are recovered from customers as quickly as the marketplace allows; however, certain customers have arrangements that allow for price changes only on a quarterly basis, and competitive pressures sometimes prevent the recovery of cost increases from customers, particularly in periods where there is excess industry capacity. As a result, for some product lines or market segments it may take time to recover raw material price increases. Periodically, firm purchase commitments are entered into which fix the price of a specific commodity that will be delivered at a future time. Forward purchase contracts are used to aid in managing the Company s natural gas and electric costs. At December 31, 2011, the Company had open forward contracts for the purchase of 1.1 million dekatherms of natural gas at a cost of $5.0 million. Because the Company has agreed to fixed prices for the noted quantity of natural gas, a hypothetical 10 percent fluctuation in the price of natural gas would cause the Company s actual natural gas cost to be $0.5 million higher or lower than the cost at market price. Also at December 31, 2011, the Company had contracts to purchase approximately 18,000 megawatt hours of electricity at a cost of $1.3 million. Because the Company has agreed to fixed prices for the noted quantity of electricity, a hypothetical 10 percent fluctuation in the price of electricity would cause the Company s actual electric cost to be $0.1 million higher or lower than the cost at market price.

Table of Contents

Item 8. Financial Statements and Supplementary Data

The following statements and data are included in this item:

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

Stepan Company

Northfield, Illinois

We have audited the accompanying consolidated balance sheets of Stepan Company and subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Stepan Company and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2012 expressed an unqualified opinion on the Company s internal control over financial reporting.

/s/ Deloitte & Touche LLP
DELOITTE & TOUCHE LLP
Chicago, Illinois

February 27, 2012

Table of Contents

Stepan Company

Consolidated Statements of Income

For the years ended December 31, 2011, 2010 and 2009

(In thousands, except per share amounts)	***2011***	*2010*	*2009*
Net Sales (Note 1)	**$ 1,843,092**	$ 1,431,122	$ 1,276,382
Cost of Sales	**1,587,539**	1,195,144	1,043,279
Gross Profit	**255,553**	235,978	233,103
Operating Expenses:			
Marketing (Note 1)	**45,807**	40,273	40,434
Administrative (Note 1)	**50,766**	49,501	51,287
Research, development and technical services (Note 1)	**40,524**	38,307	36,494
	137,097	128,081	128,215
Operating Income	**118,456**	107,897	104,888
Other Income (Expense):			
Interest, net (Note 7)	**(9,095)**	(6,341)	(6,271)
Loss from equity in joint ventures (Note 1)	**(3,616)**	(1,663)	(3,709)
Other, net (Note 9)	**(851)**	1,586	2,223
	(13,562)	(6,418)	(7,757)
Income Before Provision for Income Taxes	**104,894**	101,479	97,131
Provision for income taxes (Note 10)	**32,292**	35,888	34,028
Net Income	**72,602**	65,591	63,103
Net Income Attributable to			
Noncontrolling Interests (Note 1)	**(626)**	(164)	(54)
Net Income Attributable to Stepan Company	**$ 71,976**	$ 65,427	$ 63,049
Net Income Per Common Share			
Attributable to Stepan Company (Note 19):			
Basic	**$ 6.88**	$ 6.36	$ 6.31
Diluted	**$ 6.42**	$ 5.90	$ 5.84
Shares Used to Compute Net Income Per Common Share			
Attributable to Stepan Company (Note 19):			
Basic	**10,363**	10,163	9,870

Diluted	**11,220**	11,090	10,796

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

Table of Contents

Stepan Company

Consolidated Balance Sheets

December 31, 2011 and 2010

(Dollars in thousands)	*2011*	*2010*
Assets		
Current Assets:		
Cash and cash equivalents	**$ 84,099**	$ 111,198
Receivables, less allowances of $5,214 in 2011 and $6,145 in 2010	**260,784**	199,245
Inventories (Note 6)	**111,175**	96,552
Deferred income taxes (Note 10)	**8,769**	8,170
Other current assets	**14,915**	12,661
Total current assets	**479,742**	427,826
Property, Plant and Equipment:		
Land	**11,794**	11,917
Buildings and improvements	**143,910**	139,384
Machinery and equipment	**889,721**	832,427
Construction in progress	**74,472**	71,825
	1,119,897	1,055,553
Less: accumulated depreciation	**735,914**	701,968
Property, plant and equipment, net	**383,983**	353,585
Goodwill, net (Note 5)	**7,000**	6,717
Other intangible assets, net (Note 5)	**11,181**	5,257
Long-term investments (Note 3)	**12,464**	11,904
Other non-current assets	**6,748**	6,142
Total assets	**$ 901,118**	$ 811,431
Liabilities and Equity		
Current Liabilities:		
Current maturities of long-term debt (Note 7)	**$ 34,487**	$ 31,609
Accounts payable	**137,764**	115,248
Accrued liabilities (Note 15)	**60,975**	58,770
Total current liabilities	**233,226**	205,627
Deferred income taxes (Note 10)	**8,644**	5,154
Long-term debt, less current maturities (Note 7)	**164,967**	159,963
Other non-current liabilities (Note 16)	**88,816**	87,616
Commitments and Contingencies (Note 17)		
Equity (Note 11):		
5 $^{1}/2$ percent convertible preferred stock, cumulative, voting, without par value; authorized 2,000,000 shares; issued and outstanding 518,293 shares in 2011 and 520,089 shares in 2010	**12,957**	13,002

Common stock, $1 par value; authorized 30,000,000 shares; issued 11,709,312 shares in 2011 and 11,511,829 shares in 2010	**11,709**	11,512
Additional paid-in capital	**94,932**	83,852
Accumulated other comprehensive loss (Note 1)	**(41,485)**	(25,599)
Retained earnings	**366,293**	305,830
Less: Common treasury stock, at cost, 1,462,980 shares in 2011 and 1,406,081 shares in 2010	**(43,195)**	(39,106)
Total Stepan Company stockholders equity	**401,211**	349,491
Noncontrolling interests	**4,254**	3,580
Total equity	**405,465**	353,071
Total liabilities and equity	**$ 901,118**	$ 811,431

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

Table of Contents

Stepan Company

Consolidated Statements of Cash Flows

For the years ended December 31, 2011, 2010 and 2009

(In thousands)	***2011***	*2010*	*2009*
Cash Flows From Operating Activities			
Net income	**$ 72,602**	$ 65,591	$ 63,103
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**47,099**	40,351	37,171
Deferred compensation	**1,529**	5,020	7,010
Realized and unrealized (gain) loss on long-term investments	**156**	(1,367)	(1,929)
Stock-based compensation	**3,676**	3,789	4,754
Deferred income taxes	**5,056**	5,365	8,190
Other non-cash items	**4,967**	1,292	5,799
Changes in assets and liabilities, excluding effects of acquisitions:			
Receivables, net	**(60,842)**	(34,449)	36,397
Inventories	**(12,854)**	(16,975)	31,819
Other current assets	**(2,246)**	(576)	(652)
Accounts payable and accrued liabilities	**25,901**	7,409	(17,461)
Pension liabilities	**(2,470)**	(2,252)	(4,537)
Environmental and legal liabilities	**(772)**	(2,481)	429
Deferred revenues	**(1,474)**	(1,404)	(645)
Excess tax benefit from stock options and awards	**(2,951)**	(3,187)	(3,007)
Net Cash Provided By Operating Activities	**77,377**	66,126	166,441
Cash Flows From Investing Activities			
Expenditures for property, plant and equipment	**(83,166)**	(73,748)	(42,631)
Asset acquisition (Note 2)		(10,400)	
Business acquisitions, net of cash acquired (Note 2)	**(13,562)**	(9,835)	
Change in restricted cash			8,477
Sale of mutual funds	**1,615**	780	3,594
Other, net	**(6,274)**	(4,051)	(4,182)
Net Cash Used In Investing Activities	**(101,387)**	(97,254)	(34,742)
Cash Flows From Financing Activities			
Revolving debt and bank overdrafts, net	**223**	16,849	(24,082)
Term loan	**65,000**	40,000	
Build-to-suit obligation buyout	**(12,206)**		
Other debt borrowings	**6,573**	6,449	1,777
Other debt repayments	**(52,454)**	(10,427)	(16,690)
Dividends paid	**(11,513)**	(10,570)	(9,557)
Company stock repurchased	**(1,508)**	(4,906)	(1,927)
Stock option exercises	**3,228**	4,335	6,908
Excess tax benefit from stock options and awards	**2,951**	3,187	3,007
Other, net	**(2,398)**	(2,544)	(1,396)
Net Cash Provided By (Used In) Financing Activities	**(2,104)**	42,373	(41,960)

Effect of Exchange Rate Changes on Cash	**(985)**	1,435	521
Net Increase (Decrease) in Cash and Cash Equivalents	**(27,099)**	12,680	90,260
Cash and Cash Equivalents at Beginning of Year	**111,198**	98,518	8,258
Cash and Cash Equivalents at End of Year	**$ 84,099**	$ 111,198	$ 98,518
Supplemental Cash Flow Information			
Cash payments of income taxes, net of refunds	**$ 24,327**	$ 25,091	$ 28,809
Cash payments of interest	**$ 8,647**	$ 6,630	$ 6,887

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

Table of Contents

Stepan Company

Consolidated Statements of Equity

For the years ended December 31, 2011, 2010 and 2009

(In thousands)					STEPAN COMPANY SHAREHOLDERS				
	Total	*Comprehensive Income*	*Convertible Preferred Stock*	*Common Stock*	*Additional Paid-in Capital*	*Treasury Stock*	*Accumulated Other Comprehensive Income (Loss)*	*Retained Earnings*	*Noncontrolling Interest*
Balance, January 1, 2009	$ 209,233	$	$ 13,761	$ 10,841	$ 54,712	$ (28,126)	$ (40,525)	$ 197,481	$ 1,089
Issuance of 335,644 shares of common stock under stock option plan	8,052			336	7,716				
Purchase of 99,561 shares of common stock	(4,466)					(4,466)			
Conversion of preferred stock to common stock			(101)	6	95				
Stock-based compensation	4,754			46	4,708				
Deferred compensation	689				689				
Profit sharing (transfer of 27,372 shares of treasury stock)	981				340	641			
Net income	63,103	63,103						63,049	54
Other comprehensive income:									
Foreign currency translation adjustments	12,595	12,595					12,596		(1)
Defined benefit pension plans:									
Net actuarial gain arising in period (net of taxes of $1,216)	1,184	1,184					1,184		
Less: Amortization of prior service cost included in pension expense (net of taxes of $5)	12	12					12		
Amortization of actuarial loss included in pension expense (net of taxes of $498)	822	822					822		
Amortization of transition obligation included in pension expense (net of taxes of $7)	18	18					18		
Net defined benefit pension plan activity in period	2,036	2,036					2,036		
Comprehensive income	77,734	77,734							