UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2013

☐ **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)

Registrant's telephone number (847) 446-7500

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at July 25, 2013
Common Stock, $1 par value	22,193,090 Shares

Part I FINANCIAL INFORMATION

Item 1 – Financial Statements

STEPAN COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
Unaudited

(In thousands, except per share amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Net Sales	$474,445	$470,231	$930,991	$935,500
Cost of Sales	400,738	396,835	784,584	785,320
Gross Profit	73,707	73,396	146,407	150,180
Operating Expenses:				
Selling	14,440	12,985	28,168	26,636
Administrative	11,530	14,086	30,881	31,038
Research, development and technical services	11,868	11,504	23,195	22,285
	37,838	38,575	82,244	79,959
Operating Income	35,869	34,821	64,163	70,221
Other Income (Expense):				
Interest, net	(2,329)	(2,086)	(4,508)	(4,690)
Loss from equity in joint ventures	(1,323)	(1,300)	(2,736)	(2,441)
Other, net (Note 14)	(17)	83	554	1,148
	(3,669)	(3,303)	(6,690)	(5,983)
Income Before Provision for Income Taxes	32,200	31,518	57,473	64,238
Provision for Income Taxes	9,546	10,007	15,822	20,363
Net Income	22,654	21,511	41,651	43,875
Net (Income) Loss Attributable to Noncontrolling Interests (Note 3)	88	(86)	125	(148)
Net Income Attributable to Stepan Company	$ 22,742	$ 21,425	$ 41,776	$ 43,727
Net Income Per Common Share Attributable to Stepan Company (Note 10):				
Basic	$ 1.01	$ 1.01	$ 1.85	$ 2.06
Diluted	$ 0.99	$ 0.94	$ 1.82	$ 1.93
Shares Used to Compute Net Income Per Common Share Attributable to Stepan Company (Note 10):				
Basic	22,559	21,100	22,512	21,074
Diluted	22,917	22,714	22,903	22,690
Dividends Declared Per Common Share	$ 0.16	$ 0.14	$ 0.32	$ 0.28

All share and per share data reflect the effects of the two-for-one common stock split that was effective December 14, 2012.

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

STEPAN COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Unaudited

(In thousands)	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Net income	$22,654	$ 21,511	$ 41,651	$43,875
Other comprehensive income (loss):				
Foreign currency translation adjustments (Note 11)	(8,142)	(10,554)	(12,558)	(2,020)
Pension liability adjustment, net of tax (Note 11)	865	582	1,728	1,164
Derivative instrument activity, net of tax (Note 11)	(9)	(43)	(21)	64
Other comprehensive income (loss)	(7,286)	(10,015)	(10,851)	(792)
Comprehensive income	15,368	11,496	30,800	43,083
Less: Comprehensive (income) loss attributable to noncontrolling interests (Note 3)	61	(65)	96	(202)
Comprehensive income attributable to Stepan Company	$15,429	$ 11,431	$ 30,896	$42,881

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

STEPAN COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
Unaudited

(In thousands)	June 30, 2013	December 31, 2012
Assets		
Current Assets:		
Cash and cash equivalents	$ 106,875	$ 76,875
Receivables, net	283,506	255,858
Inventories (Note 7)	171,792	162,013
Deferred income taxes	9,560	9,876
Other current assets	24,236	18,456
Total current assets	595,969	523,078
Property, Plant and Equipment:		
Cost (Note 2)	1,261,034	1,200,355
Less: accumulated depreciation	796,588	778,333
Property, plant and equipment, net	464,446	422,022
Goodwill, net (Note 2)	11,669	7,199
Other intangible assets, net (Note 2)	25,200	8,778
Long-term investments (Note 4)	15,613	14,093
Other non-current assets	10,830	10,308
Total assets	$1,123,727	$ 985,478
Liabilities and Equity		
Current Liabilities:		
Current maturities of long-term debt (Note 13)	$ 38,748	$ 32,838
Accounts payable	156,843	141,668
Accrued liabilities	65,212	72,661
Total current liabilities	260,803	247,167
Deferred income taxes	9,725	9,200
Long-term debt, less current maturities (Note 13)	246,696	149,564
Other non-current liabilities	97,819	98,667
Commitments and Contingencies (Note 8)		
Equity:		
5-1/2% convertible preferred stock, cumulative, voting, without par value; authorized 2,000,000 shares; issued and outstanding 59,665 shares in 2013 and 61,935 shares in 2012 (Note 15)	1,492	1,548
Common stock, $1 par value; authorized 60,000,000 shares; Issued 25,399,275 shares in 2013 and 25,141,610 shares in 2012	25,399	25,142
Additional paid-in capital	132,161	125,003
Accumulated other comprehensive loss (Note 11)	(49,130)	(38,250)
Retained earnings	455,141	420,472
Less: Common treasury stock, at cost, 3,229,727 shares in 2013 and 3,175,638 shares in 2012	(58,178)	(54,930)
Total Stepan Company stockholders' equity	506,885	478,985
Noncontrolling interests (Note 3)	1,799	1,895
Total equity	508,684	480,880
Total liabilities and equity	$1,123,727	$ 985,478

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

STEPAN COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited

(In thousands)	Six Months Ended June 30 2013	2012
Cash Flows From Operating Activities		
Net income	$ 41,651	$ 43,875
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	27,638	25,217
Deferred compensation	1,312	4,957
Realized and unrealized gain on long-term investments	(1,071)	(1,010)
Stock-based compensation	424	1,591
Deferred income taxes	163	538
Other non-cash items	3,973	2,669
Changes in assets and liabilities:		
Receivables, net	(49,188)	(19,725)
Inventories	(3,958)	(27,978)
Other current assets	(5,889)	(1,150)
Accounts payable and accrued liabilities	29,484	12,303
Pension liabilities	976	(1,646)
Environmental and legal liabilities	(396)	(143)
Deferred revenues	(203)	(662)
Excess tax benefit from stock options and awards	(3,135)	(2,070)
Net Cash Provided By Operating Activities	41,781	36,766
Cash Flows From Investing Activities		
Expenditures for property, plant and equipment	(41,972)	(40,798)
Business acquisition (Note 2)	(62,633)	—
Sale of mutual funds	390	537
Other, net	(4,130)	(1,662)
Net Cash Used In Investing Activities	(108,345)	(41,923)
Cash Flows From Financing Activities		
Revolving debt and bank overdrafts, net	9,791	(810)
Other debt borrowings	100,000	—
Other debt repayments	(6,227)	(2,827)
Dividends paid	(7,107)	(6,148)
Company stock repurchased	(2,274)	(500)
Stock option exercises	3,462	2,320
Payment to noncontrolling interest (Note 16)	—	(2,000)
Excess tax benefit from stock options and awards	3,135	2,070
Other, net	(1,495)	(1,256)
Net Cash Provided By (Used In) Financing Activities	99,285	(9,151)
Effect of Exchange Rate Changes on Cash	(2,721)	(268)
Net Increase (Decrease) in Cash and Cash Equivalents	30,000	(14,576)
Cash and Cash Equivalents at Beginning of Period	76,875	84,099
Cash and Cash Equivalents at End of Period	$ 106,875	$ 69,523
Supplemental Cash Flow Information		
Cash payments of income taxes, net of refunds	$ 13,323	$ 15,121
Cash payments of interest	$ 4,753	$ 5,216

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

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements included herein have been prepared by Stepan Company (Company), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations, although management believes that the disclosures are adequate and make the information presented not misleading. In the opinion of management, all adjustments, consisting only of normal recurring accruals, necessary to present fairly the Company's financial position as of June 30, 2013, and its results of operations for the three and six months ended June 30, 2013 and 2012, and cash flows for the six months ended June 30, 2013 and 2012, have been included. These financial statements and related footnotes should be read in conjunction with the financial statements and related footnotes included in the Company's 2012 Form 10-K.

2. ACQUISITION

On June 1, 2013, the Company acquired Bayer MaterialScience's (BMS) North American polyester resins business. Prior to the acquisition, BMS was a North American producer of powder polyester resins for metal coating applications and liquid polyester resins for coatings, adhesives, sealants and elastomers (CASE) applications. The purchase included a 21,000-ton production facility in Columbus, Georgia, and a modern research and development laboratory for customer technical support and new product development. Infrastructure is in place to allow for future expansion. The acquisition has diversified the Company's polyol product offering and is expected to accelerate the Company's growth in CASE and PUSH (polyurethane systems house) applications. As of the acquisition date, the new business and acquired net assets became a part of the North American operations reporting unit included in the Company's polymers reportable segment.

The total acquisition purchase price was $68,212,000 cash, of which $61,067,000 was paid at closing and $7,145,000 primarily for inventory will be paid over a three-month period (June 2013 through August 2013) pursuant to a transition services agreement with BMS. At June 30, 2013, the acquisition payable had been reduced by $1,566,000 for payments made in June. The acquisition was originally funded through the Company's committed revolving credit agreement. Subsequent to closing on the acquisition, the Company completed a $100,000,000 private placement loan, which was used in part to finance the acquisition. See Note 13 for further information regarding the private placement borrowing.

In addition to the purchase price paid, the Company incurred $270,000 of acquisition-related expenses relating to legal, consulting, valuation and accounting services. These costs were reflected in administrative expenses on the Company's statement of income for the three and six months ended June 30, 2013.

The acquisition was accounted for as a business combination and, accordingly, the assets acquired and liabilities assumed as part of the acquisition were measured and recorded at their estimated fair values. The following table summarizes the assets acquired and liabilities assumed:

(Dollars in thousands)	June 1, 2013
Assets:	
Inventory	$ 9,002
Property, plant and equipment	37,000
Identifiable intangible assets	17,800
Goodwill	4,642
Total assets acquired	$ 68,444
Liabilities:	
Accrued expenses	232
Net assets acquired	$ 68,212

The acquired goodwill, which was assigned entirely to the Company's North American operations reporting unit included in the Company's polymers reportable segment, is deductible for tax purposes. The goodwill reflects the potential marketing, manufacturing and raw material sourcing synergies of the new business with the Company's existing polymer business. Identifiable intangible assets included a technology and manufacturing know-how license agreement ($7,900,000), a trademark/trade name ($3,800,000) and customer relationships ($6,100,000). The amortization periods for these intangibles are 8, 11 and 12 years, respectively. The purchase price allocation is preliminary pending the finalization of valuations for property, plant and equipment, identifiable intangible assets and goodwill.

The acquired business's post-acquisition financial results, which were included in the Company's consolidated financial statements for the three and six month periods ended June 30, 2013, were immaterial. The following is pro forma financial information prepared under the assumption that the acquisition of the BMS North American polyester resins business occurred on January 1, 2012.

Pro Forma Financial Information
Unaudited

(In thousands, except per share amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Net Sales	$485,404	$487,010	$957,812	$967,980
Net Income Attributable to Stepan Company	$ 23,126	$ 21,724	$ 42,461	$ 43,720
Net Income Per Common Share Attributable to Stepan Company:				
Basic	$ 1.02	$ 1.02	$ 1.88	$ 2.06
Diluted	$ 1.01	$ 0.96	$ 1.85	$ 1.93

The supplemental pro forma information is presented for illustrative purposes only and may not be indicative of the consolidated results that would have actually been achieved by the Company. Furthermore, future results may vary significantly from the results reflected in the pro forma information. The pro forma results include adjustments primarily related to amortization of acquired intangible assets, depreciation of the fair value adjustment of acquisition-date plant assets, interest on borrowings and tax expense. In addition, nonrecurring adjustments to pro forma net income include $270,000 of acquisition- related expenses and $558,000 of expense related to the fair value adjustment of the acquisition date inventory; such expenses were excluded from 2013 pro forma net income and included in 2012 pro forma net income.

3. RECONCILIATIONS OF EQUITY

Below are reconciliations of total equity, Company equity and equity attributable to the noncontrolling interests for the six months ended June 30, 2013 and 2012:

(In thousands)	Total Equity	Stepan Company Equity	Noncontrolling Interests' Equity (3)
Balance at January 1, 2013	$480,880	$478,985	$ 1,895
Net income (loss)	41,651	41,776	(125)
Dividends	(7,107)	(7,107)	—
Common stock purchases (1)	(3,334)	(3,334)	—
Stock option exercises	3,502	3,502	—
Defined benefit pension adjustments, net of tax	1,728	1,728	—
Translation adjustments	(12,558)	(12,587)	29
Derivative instrument activity, net of tax	(21)	(21)	—
Other (2)	3,943	3,943	—
Balance at June 30, 2013	$508,684	$506,885	$ 1,799

(In thousands)	Total Equity	Stepan Company Equity	Noncontrolling Interests' Equity (3)
Balance at January 1, 2012	$405,465	$401,211	$ 4,254
Net income (loss)	43,875	43,727	148
Purchase of remaining interest in Stepan Philippines, Inc. from noncontrolling interest	(2,000)	748	(2,748)
Dividends	(6,148)	(6,148)	—
Common stock purchases (1)	(1,761)	(1,761)	—
Stock option exercises	2,320	2,320	—
Defined benefit pension adjustments, net of tax	1,164	1,164	—
Translation adjustments	(2,020)	(2,074)	54
Derivative instrument activity, net of tax	64	64	—
Other (2)	3,908	3,908	—
Balance at June 30, 2012	$444,867	$443,159	$ 1,708

(1) Includes the value of Company shares purchased in the open market and the value of Company common shares tendered by employees to settle minimum statutory withholding taxes related to the receipt of performance awards and deferred compensation distributions.

(2) Primarily comprised of activity related to stock-based compensation, deferred compensation and excess tax benefits.

(3) 2013 includes noncontrolling interest in the Company's China joint venture. 2012 includes noncontrolling interests in the Company's China and Philippines joint ventures.

4. FAIR VALUE MEASUREMENTS

The following are the financial instruments held by the Company at June 30, 2013 and December 31, 2012, and the methods and assumptions used to estimate the instruments' fair values:

Cash and cash equivalents

Carrying value approximates fair value because of the short maturity of the instruments.

Derivative assets and liabilities

Derivative assets and liabilities relate to the foreign currency exchange and interest rate contracts discussed in Note 5. Fair value and carrying value were the same because the contracts were recorded at fair value. The fair values of the foreign currency contracts were calculated as the difference between the applicable forward foreign exchange rates at the reporting date and the contracted foreign exchange rates multiplied by the contracted notional amounts. The fair values of the interest rate swaps were calculated as the difference between the contracted swap rate and the current market replacement swap rate multiplied by the present value of one basis point for the notional amount of the contract. See the table that follows these financial instrument descriptions for the reported fair values of derivative assets and liabilities.

Long-term investments

Long-term investments included the mutual fund assets the Company held at the reporting dates to fund a portion of its deferred compensation liabilities and all of its non-qualified supplemental executive defined contribution obligations (see the defined contribution plans section of Note 9). Fair value and carrying value were the same because the mutual fund assets were recorded at fair value in accordance with the fair value option rules set forth in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 825, *Financial Instruments*. Fair values for the mutual funds were calculated using the published market price per unit at the reporting date multiplied by the number of units held at the reporting date. See the table that follows these financial instrument descriptions for the reported fair value of long-term investments.

Debt obligations

The fair value of debt with original maturities greater than one year comprised the combined present values of scheduled principal and interest payments for each of the various loans, individually discounted at rates equivalent to those which could be obtained by the Company for new debt issues with durations equal to the average life to maturity of each loan. The fair values of the remaining Company debt obligations approximated their carrying values due to the short-term nature of the debt. The Company's fair value measurements for debt fall in level 2 of the fair value hierarchy.

At June 30, 2013, and December 31, 2012, the fair value of debt and the related carrying values, including current maturities, were as follows:

(In thousands)	June 30, 2013	December 31, 2012
Fair value	$ 295,492	$ 194,620
Carrying value	285,444	182,402

The following tables present financial assets and liabilities measured on a recurring basis at fair value as of June 30, 2013, and December 31, 2012, and the level within the fair value hierarchy in which the fair value measurements fall:

(In thousands)	June 2013	Level 1	Level 2	Level 3
Mutual fund assets	$15,613	$15,613	$ —	$ —
Derivative assets:				
Foreign currency contracts	52	—	52	—
Total assets at fair value	$15,665	$15,613	$ 52	$ —
Derivative liabilities:				
Foreign currency contracts	$ 19	$ —	$ 19	$ —
Interest rate contracts	33	—	33	—
Total liabilities at fair value	$ 52	$ —	$ 52	$ —

(In thousands)	December 2012	Level 1	Level 2	Level 3
Mutual fund assets	$14,093	$14,093	$ —	$ —
Derivative assets:				
Foreign currency contracts	67	—	67	—
Total assets at fair value	$14,160	$14,093	$ 67	$ —
Derivative liabilities:				
Foreign currency contracts	$ 2	$ —	$ 2	$ —
Interest rate contracts	57	—	57	—
Total liabilities at fair value	$ 59	$ —	$ 59	$ —

5. DERIVATIVE INSTRUMENTS

The Company is exposed to certain risks relating to its ongoing business operations. The primary risk managed by the use of derivative instruments is foreign currency exchange risk. The Company holds forward foreign currency exchange contracts that are not designated as any type of accounting hedge as defined by U.S. generally accepted accounting principles (although they are effectively economic hedges). The Company uses these contracts to manage its exposure to exchange rate fluctuations on certain Company subsidiary accounts receivable, accounts payable and other obligation balances that are denominated in currencies other than the entities' functional currencies. The forward foreign exchange contracts are recognized on the balance sheet as either an asset or a liability measured at fair value. Gains and losses arising from recording the foreign exchange contracts at fair value are reported in earnings as offsets to the losses and gains reported in earnings arising from the re-measurement of the receivable and payable balances into the applicable functional currencies. At June 30, 2013, and December 31, 2012, the Company had open forward foreign currency exchange contracts, with settlement dates of about one month, to buy or sell foreign currencies with a U.S. dollar equivalent of $25,865,000 and $16,258,000, respectively.

The Company also holds forward foreign currency exchange contracts that are designated as a cash flow hedge. The Company uses these contracts to manage the risks and related cash flow variability resulting from exposure to exchange rate fluctuations on forecasted progress payments related to a construction project undertaken in Singapore. The progress payments are denominated in a currency other than the Singapore location's functional currency. The Company expects to complete its hedging activity for the progress payments by the end of 2013. The forward foreign exchange contracts are recognized on the balance sheet as either an asset or a liability measured at fair value. Period-to-period changes in the fair value of the hedging instruments are recognized as gains or losses in other comprehensive income, to the extent effective. The accumulated gains and losses are being reclassified out of accumulated other comprehensive income (AOCI) into earnings in the periods over which the asset is being depreciated. The amount in AOCI at June 30, 2013, that is expected to be reclassified into earnings in the next 12 months is insignificant. The Company had open forward foreign currency exchange contracts designated as cash flow hedges with U.S. dollar equivalent amounts of $574,000 and $1,197,000 at June 30, 2013, and December 31, 2012, respectively.

The Company is exposed to volatility in short-term interest rates and mitigates certain portions of that risk by using interest rate swaps. The interest rate swaps are recognized on the balance sheet as either an asset or a liability measured at fair value. The Company held interest rate swap contracts with notional values of $2,537,000 at June 30, 2013, and $2,969,000 at December 31, 2012, which were designated as cash flow hedges. Period-to-period changes in the fair value of interest rate swap contracts are recognized as gains or losses in other comprehensive income, to the extent effective. As each interest rate swap hedge contract is settled, the corresponding gain or loss is reclassified out of AOCI into earnings in that settlement period. The latest date through which the Company expects to hedge its exposure to the volatility of short-term interest rates is March 31, 2015.

The fair values of the derivative instruments held by the Company on June 30, 2013, and December 31, 2012, and derivative instrument gains and losses for the three and six month periods ended June 30, 2013 and 2012, were immaterial. For amounts reclassified out of AOCI into earnings for the three and six months periods ended June 30, 2013 and 2012, see Note 11.

6. STOCK-BASED COMPENSATION

On June 30, 2013, the Company had stock options outstanding under its 2000 Stock Option Plan, stock options and stock awards outstanding under its 2006 Incentive Compensation Plan and stock options, stock awards and stock appreciation rights (SARs) outstanding under its 2011 Incentive Compensation Plan.

Compensation expense charged against income for all stock options, stock awards and SARs was as follows:

(In thousands)

Three Months Ended June 30		Six Months Ended June 30	
2013	2012	2013	2012
$643	$963	$424	$1,591

The quarter-over-quarter and year-over-year declines in stock-based compensation expense primarily resulted from the 2013 first quarter assessment that the profitability targets for the performance awards that vest on December 31, 2013, would not be achieved.

Unrecognized compensation costs for stock options, stock awards and SARs was as follows:

(In thousands)

	June 30, 2013	December 31, 2012
Stock options	$ 1,198	$ 627
Stock awards	2,459	1,669
SARs	1,625	815

The increase in unrecognized compensation costs for stock options, SARs and stock awards reflected the first quarter 2013 grants of

	Shares
Stock options	50,087
Stock awards	46,131
SARs	88,548

The unrecognized compensation costs at June 30, 2013, are expected to be recognized over weighted-average periods of 1.4 years, 2.2 years and 1.4 years for stock options, stock awards and SARs, respectively.

7. INVENTORIES

The composition of inventories was as follows:

(In thousands)	June 30, 2013	December 31, 2012
Finished goods	$ 125,138	$ 113,589
Raw materials	46,654	48,424
Total inventories	$ 171,792	$ 162,013

Inventories are primarily priced using the last-in, first-out inventory valuation method. If the first-in, first-out inventory valuation method had been used for all inventories, inventory balances would have been approximately $32,501,000 and $33,868,000 higher than reported at June 30, 2013, and December 31, 2012, respectively.

8. CONTINGENCIES

There are a variety of legal proceedings pending or threatened against the Company. 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 related to or has been named by the government as a potentially responsible party (PRP) at a number of waste disposal sites where clean up 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.

At June 30, 2013, the Company has estimated a range of possible environmental and legal losses of $10.0 million to $29.0 million. At June 30, 2013, and December 31, 2012, the Company's accrued liability for such losses, which represented the Company's best estimate within the estimated range of possible environmental and legal losses, was $15.1 million and $15.4 million, respectively. During the first six months of 2013 cash outlays related to legal and environmental matters approximated $1.3 million compared to $1.5 million in the first six months of 2012.

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.

Following are summaries of the material contingencies at June 30, 2013:

Maywood, New Jersey Site

The Company's property in Maywood, New Jersey and property formerly owned by the Company adjacent to its current site and other nearby properties (Maywood site) were listed on the National Priorities List in September 1993 pursuant to the provisions of CERCLA because of certain alleged chemical contamination. Pursuant to an Administrative Order on Consent entered into between USEPA and the Company for property formerly owned by the Company, and the issuance of an order by USEPA to the Company for property currently owned by the Company, the Company has completed various Remedial Investigation Feasibility Studies (RI/FS) and is awaiting the issuance of a Record of Decision (ROD) from USEPA.

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 2012, the PRPs approved certain changes to remediation cost estimates which were considered in the Company's determination of its range of estimated possible losses and liability balance. The changes in range of possible losses and liability balance were immaterial.

Remediation work is continuing at this site. Based on current information, the Company believes that its recorded liability for claims associated with the D'Imperio site is adequate. However, actual costs could differ from current estimates.

Wilmington Site

The Company is currently contractually obligated to contribute to the response costs associated with the Company's formerly-owned site at 51 Eames Street, Wilmington, Massachusetts. Remediation at this site is being managed by its current owner to whom the Company sold the property in 1980. Under the agreement, once total site remediation costs exceed certain levels, the Company is obligated to contribute up to five percent of future response costs associated with this site with no limitation on the ultimate amount of contributions. To date, the Company has paid the current owner $2.1 million for the Company's portion of environmental response costs through the first quarter of 2013 (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.

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

The Company believes that based on current information it has adequate reserves for the claims related to this site. However, depending on the ultimate cost of the remediation at this site, the amount for which the Company is liable could differ from the current estimates.

9. POSTRETIREMENT BENEFIT PLANS

Defined Benefit Pension Plans

The Company sponsors various funded qualified and unfunded non-qualified defined benefit pension plans, the most significant of which cover employees in the U.S. and U.K. locations. The U.S. and U.K. defined benefit pension plans are frozen and service benefits are no longer being accrued.

Components of Net Periodic Benefit Cost

	UNITED STATES			
	Three Months Ended June 30		Six Months Ended June 30	
(In thousands)	2013	2012	2013	2012
Interest cost	$ 1,607	$ 1,735	$ 3,214	$ 3,471
Expected return on plan assets	(2,202)	(2,103)	(4,404)	(4,205)
Amortization of net loss	1,306	932	2,612	1,863
Net periodic benefit cost	$ 711	$ 564	$ 1,422	$ 1,129

	UNITED KINGDOM			
	Three Months Ended June 30		Six Months Ended June 30	
(In thousands)	2013	2012	2013	2012
Interest cost	$ 221	$ 210	$ 444	$ 419
Expected return on plan assets	(232)	(221)	(466)	(441)
Amortization of net loss	71	11	142	22
Net periodic benefit cost	$ 60	$ —	$ 120	$ —

Employer Contributions

U.S. Plans

Due to a reduced minimum funding requirement precipitated by the Pension Funding Stabilization provision of the MAP-21 Act (Moving Ahead for Progress in the 21st Century Act) placed into law in 2012, the Company does not expect to make contributions to its funded U.S. qualified defined benefit pension plans in 2013. The Company expects to pay $174,000 in 2013 related to its unfunded non-qualified plans. As of June 30, 2013, $127,000 had been paid related to the non-qualified plans.

U.K. Plan

The Company's United Kingdom subsidiary expects to contribute approximately $986,000 to its defined benefit pension plan in 2013. As of June 30, 2013, $498,000 had been contributed to the plan.

<u>Defined Contribution Plans</u>

The Company sponsors retirement savings defined contribution plans that cover U.S. and U.K. employees. The Company also sponsors a qualified profit sharing plan for its U.S. employees. The retirement savings and profit sharing defined contribution plans include a qualified plan and a non-qualified supplemental executive plan.

Defined contribution plan expenses for the Company's retirement savings and profit sharing plans were as follows:

(In thousands)	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Retirement savings plans	$1,090	$1,058	$2,167	$2,112
Profit sharing plan	1,285	1,352	2,610	2,881
Total defined contribution expense	$2,375	$2,410	$4,777	$4,993

The Company funds the obligations of its non-qualified supplemental executive defined contribution plans (supplemental plans) through a rabbi trust. The trust comprises various mutual fund investments selected by the participants of the supplemental plans. In accordance with the accounting guidance for rabbi trust arrangements, the assets of the trust and the obligations of the supplemental plans are reported on the Company's consolidated balance sheets. The Company elected the fair value option for the mutual fund investment assets so that offsetting changes in the mutual fund values and defined contribution plan obligations would be recorded in earnings in the same period. Therefore, the mutual funds are reported at fair value with any subsequent changes in fair value recorded in the statements of income. The liabilities related to the supplemental plans increase (i.e., supplemental plan expense is recognized) when the value of the trust assets appreciates and decrease when the value of the trust assets declines (i.e., supplemental plan income is recognized). At June 30, 2013, the balance of the trust assets was $1,663,000, which equaled the balance of the supplemental plan liabilities (see the long-term investments section in Note 4 for further information regarding the Company's mutual fund assets).

10. EARNINGS PER SHARE

Below is the computation of basic and diluted earnings per share for the three and six months ended June 30, 2013 and 2012. All share and per share data reflect the effects of the two-for-one common stock split that was effective December 14, 2012.

(In thousands, except per share amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Computation of Basic Earnings per Share				
Net income attributable to Stepan Company	$22,742	$21,425	$41,776	$43,727
Deduct dividends on preferred stock	21	177	43	355
Income applicable to common stock	$22,721	$21,248	$41,733	$43,372
Weighted-average number of common shares outstanding	22,559	21,100	22,512	21,074
Basic earnings per share	$ 1.01	$ 1.01	$ 1.85	$ 2.06
Computation of Diluted Earnings per Share				
Net income attributable to Stepan Company	$22,742	$21,425	$41,776	$43,727
Weighted-average number of shares outstanding	22,559	21,100	22,512	21,074
Add weighted-average net shares issuable from assumed exercise of options (under treasury stock method) (1)	210	424	243	426
Add weighted-average net shares related to unvested stock awards (under treasury stock method)	7	6	7	6
Add weighted-average shares issuable from assumed conversion of convertible preferred stock	141	1,184	141	1,184
Weighted-average shares applicable to diluted earnings	22,917	22,714	22,903	22,690
Diluted earnings per share	$ 0.99	$ 0.94	$ 1.82	$ 1.93

(1) Options to purchase 510 and 32,888 shares of common stock were not included in the computations of diluted earnings per share for the three and six months ended June 30, 2012, respectively. Options to purchase 49,776 shares of common stock were not included in the computations of dividend earnings per share for the three and six months ended June 30, 2013, respectively. The options' exercise prices were greater than the average market price for the common stock and their effect would have been antidilutive.

11. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The changes in the Company's accumulated other comprehensive income (loss) (AOCI) by component (net of income taxes) for the six month period ended June 30, 2013, are presented below:

(In thousands)	Foreign Currency Translation Adjustments	Defined Benefit Pension Plan Adjustments	Cash Flow Hedge Adjustments	Total
Balance at December 31, 2012	$ (2,886)	$ (35,498)	$ 134	$(38,250)
Other comprehensive income before reclassifications	(12,587)	—	(29)	(12,616)
Amounts reclassified from AOCI	—	1,728	8	1,736
Net current-period other comprehensive income	(12,587)	1,728	(21)	(10,880)
Balance at June 30, 2013	$ (15,473)	$ (33,770)	$ 113	$(49,130)

Information regarding the reclassifications out of AOCI for the three and six months periods ended June 30, 2013 and 2012, is displayed below:

(In thousands)	Amount Reclassified from AOCI [(a)]				Affected Line Item in Consolidated Statements of Income
	Three Months Ended June 30		Six Months Ended June 30		
AOCI Components	2013	2012	2013	2012	
Amortization of defined benefit pension actuarial losses	$(1,377)	$(943)	$(2,754)	$(1,885)	(b)
	512	361	1,026	721	Tax (expense) or benefit
	$ (865)	$(582)	$(1,728)	$(1,164)	Net of tax
Gains and losses on cash flow hedges:					
Interest rate contracts	$ (9)	$ (7)	$ (19)	$ (9)	Interest, net
Foreign exchange contracts	8	—	5	—	Cost of sales
	(1)	(7)	(14)	(9)	Total before tax
	2	2	6	2	Tax (expense) or benefit
	$ 1	$ (5)	$ (8)	$ (7)	Net of tax
Total reclassifications for the period	$ (864)	$(587)	$(1,736)	$(1,171)	Net of tax

(a) Amounts in parentheses denote expense to statement of income.

(b) This component of accumulated other comprehensive income is included in the computation of net periodic benefit cost (see Note 9 for additional details).

12. SEGMENT REPORTING

The Company has three reportable segments: surfactants, polymers and specialty products. Segment operating results for the three and six months ended June 30, 2013 and 2012, are summarized below:

(In thousands)	Surfactants	Polymers	Specialty Products	Segment Totals
For the three months ended June 30, 2013				
Net sales	$331,087	$121,325	$22,033	$474,445
Operating income	25,966	13,524	4,197	43,687
For the three months ended June 30, 2012				
Net sales	$335,114	$113,923	$21,194	$470,231
Operating income	31,024	11,775	3,395	46,194
For the six months ended June 30, 2013				
Net sales	$671,060	$217,323	$42,608	$930,991
Operating income	55,618	24,288	7,029	86,935
For the six months ended June 30, 2012				
Net sales	$682,270	$210,672	$42,558	$935,500
Operating income	64,016	23,526	7,290	94,832

Below are reconciliations of segment operating income to consolidated income before income taxes:

(In thousands)	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Operating income segment totals	$43,687	$ 46,194	$ 86,935	$ 94,832
Unallocated corporate expenses (1)	(7,818)	(11,373)	(22,772)	(24,611)
Total operating income	35,869	34,821	64,163	70,221
Interest expense, net	(2,329)	(2,086)	(4,508)	(4,690)
Loss from equity in joint ventures	(1,323)	(1,300)	(2,736)	(2,441)
Other, net	(17)	83	554	1,148
Consolidated income before income taxes	$32,200	$ 31,518	$ 57,473	$ 64,238

(1) Unallocated corporate expenses primarily comprise corporate administrative expenses (e.g., corporate finance, legal, human resources, information systems and deferred compensation) that are not included in segment operating income and not used to evaluate segment performance.

13. DEBT

At June 30, 2013, and December 31, 2012, debt comprised the following:

(In thousands)	Maturity Dates	June 30, 2013	December 31, 2012
Unsecured private 3.86 placement notes	2019-2025	$100,000	$ —
4.86%	2017-2023	65,000	65,000
5.88%	2016-2022	40,000	40,000
5.69%	2013-2018	34,286	34,286
6.86%	2013-2015	12,856	12,856
Debt of foreign subsidiaries			
Secured bank term loans, foreign currency	2013-2016	6,830	9,531
Secured bank term loan, U.S. dollars	—	—	3,500
Unsecured bank debt, U.S. dollars	2014	2,498	—
Unsecured bank debt, foreign currency	2014	1,428	—
Other loans, foreign currency	2013-2015	22,546	17,229
Total debt		$285,444	$ 182,402
Less current maturities		38,748	32,838
Long-term debt		$246,696	$ 149,564

On June 27, 2013, the Company completed a new $100 million unsecured private placement loan with interest to be paid semi-annually and with equal annual principal payments beginning on June 27, 2019, and continuing through final maturity on June 27, 2025. The proceeds of this loan were used, in part, to finance the acquisition of BMS's North American polyester resins business (originally funded out of the Company's committed revolving credit agreement), with the balance to be used for capital expenditures and other corporate purposes. This loan agreement requires the maintenance of certain financial ratios and covenants that are substantially identical to the Company's existing long-term debt and customary events of default.

The Company has a committed $125,000,000 multi-currency revolving credit agreement that expires in September 2017. The Company maintains standby letters of credit under its workers' compensation insurance agreements and for other purposes, as needed from time to time, which are issued under the revolving credit agreement. As of June 30, 2013, the Company had outstanding letters of credit totaling $2,777,000 and no outstanding debt under this agreement. There was $122,223,000 available under the revolving credit agreement as of June 30, 2013.

The various loan agreements contain provisions, which, among others, require maintenance of certain financial ratios and place limitations on additional debt, investments and payment of dividends. Based on the loan agreement provisions that place limitations on dividend payments, unrestricted retained earnings (i.e., retained earnings available for dividend distribution) were $137,820,000 and $114,204,000 at June 30, 2013, and December 31, 2012, respectively.

14. OTHER, NET

Other, net in the consolidated statements of income included the following:

(In thousands)	Three Months Ended June 30 2013	Three Months Ended June 30 2012	Six Months Ended June 30 2013	Six Months Ended June 30 2012
Foreign exchange gain (loss)	$ (199)	$ 505	$ (610)	$ 120
Investment income	9	14	93	18
Realized and unrealized gain (loss) on investments	173	(436)	1,071	1,010
Other, net	$ (17)	$ 83	$ 554	$1,148

15. PREFERRED STOCK REDEMPTION

On June 12, 2013, the Company announced that it would redeem on August 9, 2013 (redemption date), the remaining outstanding shares of its 5 1/2 percent Convertible Preferred Stock, without par value (preferred stock). The preferred stock will be redeemed at the contractual redemption price of $25.00 per share in cash, plus any accumulated and unpaid distributions up to but excluding the redemption date. Since the original issuance of the preferred stock in 1992, holders of a majority of the shares have elected to convert their shares into shares of the Company's common stock. Given the low number of remaining shares of preferred stock, the Company determined that it was appropriate to eliminate this class of stock. The Company will then have common stock as its only class of outstanding equity securities.

Holders of the preferred stock who wish to convert shares of preferred stock into shares of common stock must do so by 5:00 p.m. Eastern Daylight Time on the redemption date. A share of preferred stock is convertible into 2.2835 shares of common stock.

On June 30, 2013, there were 59,665 shares of preferred stock outstanding.

16. PURCHASE OF THE REMAINING INTEREST IN STEPAN PHILIPPINES INC.

On March 22, 2012, the Company purchased the remaining interest in Stepan Philippines, Inc. (SPI) for $2,000,000 of cash, increasing the Company's ownership share from 88.8 percent to 100 percent. As a result of this transaction, the Company's equity (additional paid-in capital) increased by $551,000. In addition, $197,000 of cumulative translation adjustments (gains) that previously had been allocated to the noncontrolling interest was reclassified to the Company's AOCI.

17. RECENT ACCOUNTING PRONOUNCEMENTS

In December 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-11, *Disclosures about Offsetting Assets and Liabilities*. Also, in January 2013, the FASB issued ASU No. 2013-01, *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*. These updates create new disclosure requirements about the nature of an entity's rights of setoff and related arrangements associated with its derivatives, repurchase agreements and securities lending transactions. Entities are required to apply the new disclosure requirements for annual and interim reporting periods beginning on or after January 1, 2013. Retrospective application is required. Adoption of the new requirements did not have an effect on the Company's financial position, results of operations or cash flows. In addition, because the Company does not have arrangements where rights of offset exist, adoption of the standard did not have an effect on Company disclosures.

In July 2012, the FASB issued ASU No. 2012-02, *Intangibles – Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment.* The amendments in this update aim to simplify the impairment test for indefinite-lived intangible assets by permitting an entity the option to assess qualitative factors to determine whether it is more likely than not (defined as having a likelihood of more than 50 percent) that an indefinite-lived intangible asset is impaired as a basis for determining whether the quantitative impairment test included in Accounting Standards Codification Subtopic 350-30, *Intangibles—Goodwill and Other—General Intangibles Other than Goodwill* must be performed. The amendment is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The Company currently has no indefinite-lived intangible assets other than goodwill reported on its consolidated balance sheet. As such, adoption of this amendment did not have an effect on the Company's financial position, results of operations or cash flows.

In February 2013, the FASB issued ASU No. 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, which adds new disclosure requirements for items reclassified out of AOCI and expands the existing disclosure requirements for the presentation of changes in AOCI. The amendment is effective for reporting periods beginning after December 15, 2012. Because this update affects only the disclosures for AOCI, adoption of the requirements did not have an effect on the Company's financial position, results of operations or cash flows.

In February 2013, the FASB issued ASU No. 2013-04, *Liabilities (Topic 405), Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date.* This update requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date, as the sum of a) the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and b) any additional amount the reporting entity expects to pay on behalf of its co-obligors. The update also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. The requirements of ASU No. 2013-04 are effective on a retrospective basis for interim and annual periods beginning after December 15, 2013. The Company is in the process of determining the effects, if any, that the adoption of ASU No. 2013-04 will have on the Company's financial position, results of operations or cash flows.

Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations

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

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 expressions. Actual results may vary materially.

Forward-looking statements speak only as of the date they are made, and the Company does not undertake any obligation to update them to reflect changes that occur after that date. Factors that could cause actual results to differ materially include the items described in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

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 72 percent of consolidated net sales in the first six months of 2013, 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 two Asian sites (Philippines and Singapore). 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 (enhanced oil recovery). The joint venture is accounted for under the equity method, and its financial results are excluded from surfactant segment operating results. Profits on sales of the Company's surfactants to enhanced oil recovery customers are included in surfactants segment results.
- Polymers – Polymers, which accounted for 23 percent of consolidated net sales in the first six months of 2013, include two primary product lines: polyols and phthalic anhydride. Polyols are used in the manufacture of rigid laminate insulation board and panels for thermal insulation in the construction industry and are also a base raw material for flexible foams and coatings, adhesives, sealants and elastomers (collectively CASE products). Phthalic anhydride is used in unsaturated polyester resins, alkyd resins and plasticizers for applications in construction materials and components of automotive, boating and other consumer products. In addition, the Company uses phthalic anhydride internally in the production of polyols. In the U.S., polymer product lines are manufactured at the Company's Millsdale, Illinois, site and beginning June 1, 2013, at the Company's Columbus, Georgia, site (see the 'Acquisition' section for information

regarding the Company's June 1, 2013, acquisition). In Europe, polyols are manufactured at the Company's subsidiaries in Germany and Poland. In Asia, polyols are currently toll produced for the Company's 80-percent owned joint venture in Nanjing, China (see the 'Segment Results' section of this MD&A for a discussion regarding the Company's requirement to move its China facility).

- Specialty Products – Specialty products, which accounted for 5 percent of consolidated net sales in the first six months of 2013, 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 and, in some instances, at outside contractors.

Acquisition

On June 1, 2013, the Company announced it had acquired the North American polyester resins business of Bayer MaterialScience LLC (BMS). Prior to the acquisition, BMS was a leading North American producer of powder polyester resins for metal coating applications and liquid polyester resins for CASE applications. The acquisition included a 21,000-ton production facility in Columbus, Georgia, and a modern research and development laboratory for customer technical support and new product development. Infrastructure is in place to allow for future expansion. Prior to the purchase, the acquired business had annual sales of approximately $64 million. As of the acquisition date, the new business became a part of the North American operations reporting unit included in the Company's polymers reportable segment.

The Company is a leading producer of polyester polyol used in rigid insulation foam. The acquisition has diversified the Company's polyol product offering and is expected to accelerate Company growth in CASE and PUSH (polyurethane systems house) applications. The Company intends to make future capital expenditures to expand production capabilities at the site.

The total acquisition purchase price was $68,212,000 cash, of which $61,067,000 was paid at closing with $7,145,000 primarily for inventory being paid over a three-month period (June 2013 through August 2013) pursuant to a transition services agreement with BMS. The acquisition was originally funded through the Company's committed revolving credit agreement. Subsequent to closing on the acquisition, the Company completed a $100.0 million private placement loan, which was used in part to finance the acquisition (see the Liquidity and Capital Resources section of this MD&A for further information regarding the private placement borrowing).

The effect of the new business was immaterial to second quarter 2013 operating results. The Company believes that the acquisition will be slightly accretive to 2013 earnings. See Note 2 of the condensed consolidated financial statements for further details regarding the acquisition.

Deferred Compensation Plans

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

(In millions)	Income (Expense) For the Three Months Ended June 30 2013	2012	Change
Deferred Compensation (Administrative expense)	$ 3.6	$ (1.5)	$ 5.1[1]
Realized/Unrealized Gains (Loss) on Investments (Other, net)	0.2	(0.3)	0.5
Investment Income (Other, net)	—	—	—
Pretax Income Effect	$ 3.8	$ (1.8)	$ 5.6

(In millions)	Income (Expense) For the Six Months Ended June 30 2013	2012	Change
Deferred Compensation (Administrative expense)	$ (1.3)	$ (5.0)	$ 3.7[1]
Realized/Unrealized Gains on Investments (Other, net)	1.0	1.0	—
Investment Income (Other, net)	0.1	—	0.1
Pretax Income Effect	$ (0.2)	$ (4.0)	$ 3.8

(1) See the Corporate Expenses section of this management's discussion and analysis for details regarding the quarter-over-quarter and year-over-year changes in deferred compensation expense.

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 period-to-period comparisons of financial statement items (i.e., because foreign exchange rates fluctuate, similar period-to-period 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 period-over-period changes in consolidated net sales and various income line items for the three and six month periods ended June 30, 2013 and 2012:

(In millions)	Three Months Ended June 30 2013	2012	Increase	Increase Due to Foreign Translation
Net Sales	$474.4	$470.2	$ 4.2	$ 1.5
Gross Profit	73.7	73.4	0.3	0.1
Operating Income	35.9	34.8	1.1	0.1
Pretax Income	32.2	31.5	0.7	0.1

(In millions)	Six Months Ended June 30 2013	2012	(Decrease)	Increase (Decrease) Due to Foreign Translation
Net Sales	$931.0	$935.5	($ 4.5)	$ 1.2
Gross Profit	146.4	150.2	(3.8)	(0.1)
Operating Income	64.2	70.2	(6.0)	—
Pretax Income	57.5	64.2	(6.7)	—

RESULTS OF OPERATIONS

Three Months Ended June 30, 2013 and 2012

Summary

Net income attributable to the Company for the second quarter of 2013 increased six percent quarter-over-quarter to $22.7 million, or $0.99 per diluted share, compared to $21.4 million, or $0.94 per diluted share, for the second quarter of 2012 (all per share data reflect the effects of the two-for-one common stock split that was effective December 14, 2012). Below is a summary discussion of the major factors leading to the quarter-over-quarter changes in net sales, profits and expenses. A detailed discussion of segment operating performance for the second quarter of 2013 follows the summary.

Consolidated net sales increased $4.2 million, or one percent, quarter over quarter. A four percent increase in sales volume and the favorable effects of foreign currency translation increased net sales by $18.3 million and $1.5 million, respectively. The surfactants and polymers segment accounted for the sales volume improvement, growing five percent and one percent, respectively. A decline in average selling prices reduced the effect of increased sales volume and foreign currency translation by $15.6 million. Quarter-over-quarter declines in surfactant raw material costs drove the decline in average selling prices.

Operating income for the second quarter of 2013 increased $1.0 million, or three percent, from operating income reported for the second quarter of 2012. Gross profit was essentially flat between quarters, increasing $0.3 million, or less than one percent. Gross profit gains for the polymer and specialty products segments were offset by a decline in gross profit for the surfactants segment. Lower costs and higher sales volume generated the polymer improvement while a favorable mix of sales led to the specialty products increase. Higher priced methyl ester inventories built to support the Singapore start-up combined with contractual selling price lags negatively impacted surfactants gross profit.

Operating expenses declined $0.7 million, or two percent, between quarters. The following summarizes the quarter-over-quarter changes in the individual income statement line items that comprise the Company’s operating expenses:

- Selling expenses increased $1.5 million, or 11 percent, quarter over quarter. The only significant item was a $0.5 million increase related to the Company’s provisions for bad debts, which primarily related to increased European customer risk. The remainder of the quarter-over-quarter increase was due to the accumulation of increases for product registration costs, travel and other individually insignificant expenses, as well as a reduction of royalty income.

- Administrative expenses declined $2.6 million, or 18 percent, quarter over quarter. Deferred compensation expense declined $5.1 million due to a 2013 second quarter decline in the value of Company stock compared to 2012 second quarter increase. See the ‘Overview’ and ‘Corporate Expenses’ sections of this MD&A for further details. Increases in legal and patent expenses offset the effect of deferred compensation by $0.9 million and $0.6 million, respectively. The increases were largely due to additional spending to support the Company’s acquisition and other growth and innovation initiatives. Higher expenses for salaries, U.S. expatriate support, consulting fees and computer hardware/software maintenance also partially offset the effect of lower deferred compensation expenses.
- Research, development and technical service expenses were up $0.4 million, or three percent, quarter over quarter. Higher consulting fees and U.S. salary expenses accounted for most of the increase.

Net interest expense for the second quarter of 2013 was up $0.2 million over net interest expense for the second quarter of 2012. The increase reflected higher average debt levels. In future periods, interest expense is expected to increase because on June 27, 2013, the Company borrowed $100.0 million pursuant to a private placement note purchase agreement that expires in 2025. The Company borrowed the funds to finance the recent acquisition of the North American polyester resins business of BMS and expects to use the remaining proceeds for related capital expenditures and working capital as well as for general corporate purposes.

Other, net was less than $0.1 million of expense for the second quarter of 2013 compared to $0.1 million of income for the same period of 2012. Foreign exchange gains/losses amounted to $0.2 million of loss in the second quarter of 2013 compared to $0.5 million of income in the second quarter 2012. Investment results (including realized and unrealized gains and losses) for the Company’s deferred compensation and supplemental defined contribution mutual fund assets were $0.2 million of income in the second quarter of 2013 compared to $0.4 million of expense in the second quarter of last year.

The effective tax rate was 29.6 percent for the second quarter of 2013 compared to 31.8 percent for the second quarter of 2012. The decrease was primarily attributable to a greater percentage of consolidated income being generated outside the U.S. where the effective tax rates are lower. The decrease was also attributable to the federal research and development tax credit and the small agri-biodiesel producer tax credit which were extended retroactively from January 1, 2012, through December 31, 2013, when *The American Taxpayer Relief Act of 2012* was signed into law on January 2, 2013. As a result of this legislation, the Company recorded a tax benefit of $0.3 million for amounts generated in the second quarter 2013.

Segment Results

(In thousands)	Surfactants	Polymers	Specialty Products	Segment Results	Corporate	Total
For the three months ended June 30, 2013						
Net sales	$331,087	$121,325	$22,033	$474,445	—	$474,445
Operating income	25,966	13,524	4,197	43,687	(7,818)	35,869
For the three months ended June 30, 2012						
Net sales	$335,114	$113,923	$21,194	$470,231	—	$470,231
Operating income	31,024	11,775	3,395	46,194	(11,373)	34,821

Surfactants

Surfactants net sales for the second quarter of 2013 declined $4.0 million, or one percent, from net sales for the second quarter of 2012. Lower quarter-over-quarter average selling prices for all regions drove the net sales decrease. The drop in average selling prices, which reflected reduced raw material costs, negatively affected the quarter-over-quarter change in net sales by $20.3 million. A five percent increase in sales volume and the favorable effects of foreign currency translation mitigated the selling price impact by $16.1 million and $0.2 million, respectively. A quarter-over-quarter comparison of net sales by region follows:

	For the Three Months Ended			
(In thousands)	June 30, 2013	June 30, 2012	Increase (Decrease)	Percent Change
North America	$ 206,858	$ 210,398	$ (3,540)	-2
Europe	68,366	71,419	(3,053)	-4
Latin America	42,445	38,984	3,461	+9
Asia	13,418	14,313	(895)	-6
Total Surfactants Segment	$ 331,087	$ 335,114	$ (4,027)	-1

Net sales for North American operations declined two percent from quarter to quarter. Sales volume increased two percent due to higher sales of laundry and cleaning and personal care products along with continued strong demand for agricultural chemicals. The volume increase was somewhat tempered by weak demand for products used in oilfield and enhanced oil recovery applications largely due to start-up delays at certain key customers. A four percent decrease in average selling prices, brought on by lower quarter-over-quarter raw material costs, more than offset the effect of increased sales volume. The decrease in average selling prices accounted for $8.2 million of the net sales decline. The increase in sales volume offset the impact of reduced selling prices by $4.9 million.

Net sales for European operations declined four percent. Sales volume improved five percent, largely driven by increased demand for Company products used in personal care applications, primarily as a result of new business in the UK. Average selling prices declined nine percent mainly due to a decrease in raw material costs. The drop in average selling prices had a $6.8 million negative effect on the quarter-over-quarter change in net sales, while the sales volume growth favorably impacted the change between quarters by $3.7 million.

Net sales for Latin American operations increased nine percent due to a 15 percent improvement in sales volume, which had a $5.9 million favorable effect on the quarter-over-quarter change in net sales. Most of the sales volume improvement was generated by the Brazil subsidiary, which reported a 17 percent quarter-over-quarter increase as the Company continued to grow its surfactants business in that country. Average selling prices declined five percent between quarters, which offset the effect of sales volume by $2.4 million. Lower raw material costs led to the decline in average selling prices.

Net sales for Asia operations declined six percent due to a twelve percent decline in average selling prices, which more than offset the effect of a five percent increase in sales volume. The decrease in average selling prices reflected lower raw material costs. The sales volume increase reflected sales from the Singapore location, which was not commercially operational until the fourth quarter of 2012.

Surfactants operating income for the second quarter of 2013 declined $5.1 million, or 16 percent, from operating income for the second quarter of 2012. Gross profit decreased $3.4 million principally due to a decline in profit from North American operations. Operating expenses increased $1.7 million, or eight percent. Quarter-over-quarter comparisons of gross profit by region and total segment operating expenses and operating income follow:

	For the Three Months Ended		Increase	Percent
(In thousands)	June 30, 2013	June 30, 2012	(Decrease)	Change
Gross Profit				
North America	$ 33,461	$ 38,663	$ (5,202)	-13
Europe	6,563	6,056	507	+8
Latin America	6,398	5,189	1,209	+23
Asia	1,908	1,812	96	+5
Total Surfactants Segment	$ 48,330	$ 51,720	$ (3,390)	-7
Operating Expenses	22,364	20,696	1,668	+8
Operating Income	$ 25,966	$ 31,024	$ (5,058)	-16

North American gross profit declined 13 percent quarter over quarter due to a decline in average unit margins precipitated by the previously mentioned consumption of high priced methyl ester inventories and contractual selling price lags. A different mix of product sales (reduced sales of oilfield chemicals and increased sales of laundry and cleaning and personal care products) also contributed to the decreased margin.

Gross profit for European operations improved eight percent primarily as a result of the previously noted five percent sales volume gain.

Gross profit for Latin American operations increased 23 percent due to the 15 percent increase in sales volume and improved margins. Lower raw material costs and reduced unit overhead costs, due to fuller capacity utilization, led to the increased margins.

Asia operations gross profit improvement reflected the five percent improvement in sales volume.

Operating expenses for the surfactants segment were up $1.7 million, or eight percent, quarter over quarter. Administrative and selling expenses each increased by $0.8 million. The increase in administrative expenses was attributable to the accumulation of a number of small items for European and Asian operations, each which rose by $0.4 million. North American and European operations accounted for the selling expense increase ($0.6 million and $0.2 million, respectively). The North American selling expense increase reflected higher product registration costs, travel and bad debt expenses. The higher European selling expenses was attributable to an increase in the bad debt provision due to additional reserves required for specific customers.

Polymers

Polymers net sales for the second quarter of 2013 increased $7.4 million, or six percent, over net sales for the same quarter of 2012. Higher average selling prices, the favorable effects of foreign currency translation and a one percent increase in sales volume accounted for $5.2 million, $1.3 million and $0.9 million, respectively, of the net sales improvement. A quarter-over-quarter comparison of net sales by region is displayed below:

	For the Three Months Ended			Percent
(In thousands)	June 30, 2013	June 30, 2012	Increase	Change
North America	$ 74,534	$ 71,319	$3,215	+5
Europe	39,542	35,487	4,055	+11
Asia and Other	7,249	7,117	132	+2
Total Polymers Segment	$ 121,325	$ 113,923	$7,402	+6

Net sales for North American operations increased five percent due to a nine percent increase in average selling prices, partially offset by a four percent decline in sales volume. The higher average selling prices had a $6.0 million favorable effect on the net sales change. Higher polyol raw material costs and sales mix drove the increase in average selling prices. The effect of the sales volume decline reduced quarter-over-quarter net sales by $2.8 million. Sales volumes for phthalic anhydride decreased nine percent due to weaker demand from polyester resin customers. Polyol sales volume increased four percent primarily due to CASE sales associated with the BMS North American polyester resins acquisition made in June.

Net sales for European operations increased 11 percent due to a 10 percent increase in sales volume and the effects of foreign currency translation, which accounted for $3.5 million and $1.1 million, respectively, of the net sales improvement. An increased share of a key customer’s business, due in part to greater demand for polyols used in metal panel insulation applications, was the major contributor to the improved sales volume. Average selling prices declined one percent, which reduced the quarter-over-quarter increase in net sales by $0.5 million.

Net sales for Asia and Other operations increased two percent quarter over quarter due to a two percent increase in sales volume.

As noted in prior filings, local government officials in Nanjing, China, have informed the Company that its manufacturing facility in that city will need to be relocated. The Company’s intention is to build a new facility in the Nanjing Chemical Industrial Park. The existing China plant is no longer producing. Customers’ requirements are being sourced from inventory produced in advance of the shutdown and from the Company’s U.S. and European plants and toll production in China, which will negatively affect profits. Once begun, construction of the new plant is anticipated to take 18 to 24 months.

Polymer operating income for the second quarter of 2013 increased $1.7 million, or 15 percent, over operating income for the second quarter of 2012. Gross profit improved $2.6 million between quarters, largely due to lower costs for North American operations. Operating expenses increased $0.8 million, or 15 percent. Quarter-over-quarter comparisons of gross profit by region and total segment operating expenses and operating income follow:

(In thousands)	For the Three Months Ended June 30, 2013	June 30, 2012	Increase (Decrease)	Percent Change
Gross Profit				
North America	$ 14,970	$ 11,398	$ 3,572	+31
Europe	5,259	5,116	143	+3
Asia and Other	(289)	857	(1,146)	-134
Total Polymers Segment	$ 19,940	$ 17,371	$ 2,569	+15
Operating Expenses	6,416	5,596	820	+15
Operating Income	$ 13,524	$ 11,775	$ 1,749	+15

Gross profit for North American operations increased 31 percent despite the four percent decrease in sales volume. Lower costs and a more favorable mix of sales drove the gross profit improvement. Last year's results were negatively impacted by $2.0 million of additional plant expenses and product outsourcing costs related to the Company's triennial polymer plant maintenance shutdown.

Gross profit for European operations increased three percent due to increased sales volume, partially offset by the effects of reduced unit margins brought on by lower selling prices.

The decline in gross profit for Asia and Other operations was due to reduced selling margins coupled with higher expenses resulting from shutting down production at the plant in Nanjing, China. The market price for the inventory built up prior to shutting down the plant declined thereby reducing the margin for the sale of such inventory. The higher expenses included the acceleration of $0.5 million of depreciation on all equipment that was not projected to be transferred to the new facility.

Polymer operating expenses increased $0.8 million, or 15 percent, quarter over quarter. Increased expenses for North American operations accounted for $0.5 million of the total change between quarters. Approximately $0.3 million of the North American increase related to higher research and development expenses and $0.2 million related to higher selling expenses.

Specialty Products

Net sales for the second quarter of 2013 increased $0.8 million, or four percent, over net sales for the second quarter of 2012. Operating income improved $0.8 million, or 24 percent. A greater mix of products used in pharmaceutical applications led to the increases in net sales and operating income.

Corporate Expenses

Corporate expenses, which comprise operating expenses that are not allocated to the reportable segments, declined $3.6 million (31 percent) to $7.8 million for the second quarter of 2013 from $11.4 million for the same quarter of 2012. The quarter-over-quarter decrease in corporate expenses was attributable to a $5.1 million decline in expenses related to the Company's deferred compensation plans ($3.6 million of income for the second quarter of 2013 compared to $1.5 million of expense for the second quarter of 2012). A 2013 second quarter decline in the value of Company stock compared to a 2012 second quarter increase in the value of Company stock led to the favorable quarter-over-quarter swing in deferred compensation expense. The value of Company stock decreased $7.49 per share in the second quarter of 2013 compared to $3.19 per share increase in the second quarter of 2012. The following table presents the quarter-end Company common stock market prices used in the computation of deferred compensation income/expense:

	2013		2012	
	June 30	March 31	June 30	March 31
Company Stock Price	$55.61	$ 63.10	$47.09	$ 43.90

Increases in corporate legal and patent expenses, largely due to additional spending to support the Company's growth and innovation initiatives, offset the effect of deferred compensation by $0.9 million and $0.4 million, respectively. In addition, approximately $0.4 million of the legal expense increase resulted from a 2012 non-recurring favorable adjustment to a liability associated with a previously settled claim.

Six Months Ended June 30, 2013 and 2012

Summary

Net income attributable to the Company for the first half of 2013 declined four percent year-over-year to $41.8 million, or $1.82 per diluted share, compared to $43.7 million, or $1.93 per diluted share, for the first half of 2012 (all per share data reflect the effects of the two-for-one common stock split that was effective December 14, 2012). 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 the first half of 2013 follows the summary.

Consolidated net sales declined $4.5 million, or less than one percent, between years. Sales volume increased three percent due to a five percent increase for the surfactants segment. Sales volumes for the polymers and specialty products segments declined three percent and seven percent, respectively. A decline in average selling prices had a negative $36.9 million impact on the year-over-year net sales change. Decreased raw material costs for surfactants led to the drop in average selling prices. The three percent increase in sales volume and the favorable effects of foreign currency translation reduced the net sales decline by $31.2 million and $1.2 million, respectively.

Operating income for the first half of 2013 declined $6.1 million, or nine percent, from operating income for the same period of 2012. Gross profit fell $3.8 million, or three percent. The surfactants segment accounted for the profit decline, as polymers segment gross profit improved and specialty products gross profit was flat year-over-year. Margin deterioration for the Company's North American operations negatively impacted surfactants gross profit. Lower costs and improved sales mix led to improvement for polymers.

Operating expenses increased $2.3 million, or three percent, between years. The following summarizes the year-over-year changes in the individual income statement line items that comprise the Company's operating expenses:

- Selling expenses increased $1.5 million, or six percent, year over year. Increased bad debt expense, product registration expenses and Brazil personnel costs (salaries and hiring expenses) contributed $0.4 million, $0.3 million and $0.3 million, respectively to the increase. The bad debt expense was for additional provisions primarily related to increased European customer risk.
- Administrative expenses declined $0.2 million, or one percent, year over year. The decrease was attributable to $3.6 million of lower deferred compensation expense, which reflected a smaller year-over-year increase in the value of Company stock. See the 'Overview' and 'Corporate Expenses' sections of this MD&A for further details. The major offsets to the decline in deferred compensation expense were increases in corporate and other legal expenses ($0.9 million), U.S. expatriate support ($0.5 million), U.S. salary expense ($0.4 million), hiring expenses ($0.3 million) and hardware and software maintenance costs ($0.3 million). The remainder of the change between years was attributable to the accumulation of numerous administrative expense increases from throughout the Company's global organization.
- Research, development and technical service expenses were up $0.9 million, or four percent, year over year. Higher salary expenses, consulting fees and European product registration expenses accounted for the increase.

Net interest expense for the first half of 2013 was down $0.2 million, or four percent, over net interest expense for the first half of 2012. Lower average interest rates led to the decline. As noted earlier, future interest expense is expected to increase due to the borrowing of $100.0 million under a private placement note purchase agreement executed on June 27, 2013.

The loss from the Company's 50-percent equity joint venture (TIORCO) increased $0.3 million year over year primarily due to lower commission and technical service income.

Other, net was $0.6 million of income for the first half of 2013 compared to $1.1 million of income for the same period of 2012. Foreign exchange gains/losses amounted to $0.6 million of loss in the first half of 2013 compared to $0.1 million of income in the first half of 2012. Investment results (including realized and unrealized gains and losses) for the Company's deferred compensation and supplemental defined contribution mutual fund assets were $1.2 million of income in the first half of 2013 versus to $1.0 million of income in the first half of last year.

The effective tax rate was 27.5 percent for the first half of 2013 compared to 31.7 percent for the first half 2012. The decrease was primarily attributable to the federal research and development tax credit and the small agri-biodiesel producer tax credit which were extended retroactively from January 1, 2012, through December 31, 2013, when *The American Taxpayer Relief Act of 2012* was signed into law on January 2, 2013. As a result of this legislation, the Company recorded a tax benefit of $1.4 million in the first quarter of 2013 for amounts generated in 2012 and a tax benefit of $0.7 million for amounts generated in the first half of 2013.

Segment Results

(In thousands)	Surfactants	Polymers	Specialty Products	Segment Results	Corporate	Total
For the six months ended June 30, 2013						
Net sales	$671,060	$217,323	$42,608	$930,991	—	$930,991
Operating income	55,618	24,288	7,029	86,935	(22,772)	64,163
For the six months ended June 30, 2012						
Net sales	$682,270	$210,672	$42,558	$935,500	—	$935,500
Operating income	64,016	23,526	7,290	94,832	(24,611)	70,221

Surfactants

Surfactants net sales for the first half of 2013 declined $11.2 million, or two percent, from net sales for the first half of 2012. A five percent increase in sales volume favorably affected the net sales change by $33.1 million. All regions contributed to the improvement in sales volume. A decrease in average selling prices accounted for $43.8 million of the net sales decline. A drop in raw material costs was the major contributor to the selling price reductions. Foreign currency translation had a $0.5 million unfavorable effect on the year-over-year net sales change. A year-over-year comparison of net sales by region follows:

(In thousands)	For the Six Months Ended June 30, 2013	For the Six Months Ended June 30, 2012	Increase (Decrease)	Percent Change
North America	$ 418,320	$ 434,915	$(16,595)	-4
Europe	146,549	147,070	(521)	—
Latin America	80,647	78,214	2,433	+3
Asia	25,544	22,071	3,473	+16
Total Surfactants Segment	$ 671,060	$ 682,270	$(11,210)	-2

Net sales for North American operations declined four percent year over year. Sales volume increased by two percent primarily higher sales of functional surfactants used in agricultural applications and biodiesel. Average selling prices declined five percent, which had a $23.6 million negative effect on the year-over-year net sales change. Lower raw material costs caused the decline in average selling prices. The increase in sales volume mitigated the impact of reduced selling prices by $7.3 million.

Net sales for European operations declined less than one percent. Sales volume increased six percent largely due to increased demand for Company products used in personal care and agricultural chemical applications. Average selling prices declined six percent due to a reduction in raw material costs.

Net sales for Latin American operations increased three percent as a result of a 10 percent increase in sales volume partially offset by a five percent decline in average selling prices and the negative effects of foreign currency translation. The higher sales volume had a $7.6 million positive effect on the year-over-year net sales change while the decline in selling prices and impact of foreign currency translation had negative effects of $4.0 million and $1.1 million, respectively. Sales volume for all three Latin American locations improved between years, with most of the increase derived from Brazil, as the Company continued to expand its surfactants franchise in that country. The decrease in average selling prices reflected declines in raw material costs.

Net sales for Asia operations increased 16 percent due to a 26 percent increase in sales volume. The sales volume increase reflected sales from the Singapore location, which was not commercially operational until the fourth quarter of 2012.

Surfactants operating income for the first half of 2013 declined $8.4 million, or 13 percent, from operating income for the first half of 2012. Gross profit decreased $5.7 million, or five percent, principally due to lower results from the segment's North American operations. The effects of foreign currency translation contributed $0.3 million to the gross profit decline. Operating expenses increased $2.7 million, or six percent. Year-over-year comparisons of gross profit by region and total segment operating expenses and operating income follow:

(In thousands)	For the Six Months Ended June 30, 2013	For the Six Months Ended June 30, 2012	Increase (Decrease)	Percent Change
Gross Profit				
North America	$ 72,935	$ 80,915	$ (7,980)	-10
Europe	13,432	14,074	(642)	-5
Latin America	11,890	9,121	2,769	+30
Asia	1,721	1,593	128	+8
Total Surfactants Segment	$ 99,978	$ 105,703	$ (5,725)	-5
Operating Expenses	44,360	41,687	2,673	+6
Operating Income	$ 55,618	$ 64,016	$ (8,398)	-13

North American gross profit decreased 10 percent year over year due to a decline in average unit margins, which primarily resulted from the consumption of high priced methyl ester inventories (built to support the Singapore start-up) and contractual selling price lags. Approximately $1.3 million of reduced biodiesel contribution was also a factor in the year-over-year decline in North American gross profit.

Gross profit for European operations declined five percent despite the six percent increase in sales volume. The decline in gross profit reflected lower unit margins, resulting from selling price reductions that outpaced the reduction in the Company's raw material costs.

Gross profit for Latin American operations increased 30 percent due to increased unit margins and the 10 percent increase in sales volume. Lower raw material costs caused most of the increase in the unit margin. Reduced unit overhead costs contributed to the margin result.

Gross profit for Asia operations increased eight percent primarily due to the increase in sales volume.

Operating expenses for the surfactants segment were up $2.7 million, or six percent, year over year. Selling, administrative and research and development expenses were up $1.2 million, $1.1 million and $0.4 million, respectively. North American and Latin American operations accounted for $0.8 million and $0.4 million, respectively, of the selling expense increase. The accumulation of a number of small increases, including product registration costs, bad debt provision and travel expenses, contributed to the North American year-over-year change. Latin American's increase was attributable to higher salary and hiring expenses.

European and Asian operations each contributed $0.6 million to the increase in administrative expenses. Most of the European increase resulted from higher salary and fringe benefit expenses. The Asian increase reflected the accumulation of a number of items including salary, fringe benefit and software maintenance expenses.

The increase in research and development expenses comprised higher consulting fees in North America and higher product registration expenses in Europe.

Polymers

Polymers net sales for the first half of 2013 increased $6.7 million, or three percent, over net sales for the first half of 2012. Higher average selling prices and the effects of foreign currency translation accounted for $11.2 million and $1.5 million, respectively, of the year-over-year net sales increase. A three percent decrease in sales volume negatively offset the impact of higher selling prices and foreign currency translation by $6.0 million. A year-over-year comparison of net sales by region is displayed below:

	For the Six Months Ended			
(In thousands)	June 30, 2013	June 30, 2012	Increase (Decrease)	Percent Change
North America	$134,593	$131,943	$ 2,650	+2
Europe	72,592	67,516	5,076	+8
Asia and Other	10,138	11,213	(1,075)	-10
Total Polymers Segment	$217,323	$210,672	$ 6,651	+3

Net sales for North American operations increased two percent due to an eight percent increase in average selling prices, partially offset by a five percent decline in sales volume. The increase in average selling prices, which was driven by increased raw material costs, positively affected the change in net sales by $9.9 million. The drop in sales volume reduced year-over-year net sales by $7.2 million. Sales volume for phthalic anhydride fell 11 percent primarily attributable to weaker demand from polyester resin customers. Polyol sales volume increased one percent primarily due to new CASE business related to the BMS North American polyester resins acquisition made in June.

Net sales for European operations increased eight percent due to a four percent improvement in sales volume, the effects of foreign currency translation and a two percent increase in average selling prices, which accounted for $2.5 million, $1.4 million and $1.2 million, respectively, of the growth in net sales. An increased share of business at a key customer, due in part to greater demand for polyols used in metal panel insulation applications, was the major contributor to the improved sales volume. Raw material cost increases led to the higher average selling prices.

Net sales for Asia and Other operations declined 10 percent between years due to a 10 percent decrease in sales volume. The sales decline reflected uncertainty in the China economy.

Polymer operating income for the first half of 2013 increased $0.8 million, or three percent, over operating income for the first half of 2012. Gross profit improved $1.7 million between years, mainly due to lower costs for North American operations. Operating expenses increased $0.9 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 Six Months Ended June 30, 2013	June 30, 2012	Increase (Decrease)	Percent Change
Gross Profit				
North America	$ 26,381	$ 23,184	$ 3,197	+14
Europe	10,396	10,480	(84)	-1
Asia and Other	(286)	1,124	(1,410)	-125
Total Polymers Segment	$ 36,491	$ 34,788	$ 1,703	+5
Operating Expenses	12,203	11,262	941	+8
Operating Income	$ 24,288	$ 23,526	$ 762	+3

Gross profit for North American operations increased 14 percent due to the effects of lower costs and a favorable mix of sales that more than offset the impact of a five percent decrease in sales volume. Last year's gross profit was adversely affected by $2.0 million of additional plant expenses and product outsourcing costs related to the Company's triennial polymer plant maintenance shutdown.

Gross profit for European operations declined one percent primarily due to higher raw material costs that negatively impacted margins.

The decline in gross profit for Asia and Other operations was due to the 10 percent decrease in sales volume and to higher expenses. As a result of the need to vacate the current manufacturing facility in China, the Company accelerated $0.6 million of depreciation on all assets that were not projected to be moved to the new site.

Polymer operating expenses increased $0.9 million, or eight percent, year over year. Increased expenses for North American operations accounted for $0.5 million of the total change, of which $0.4 million was attributable to higher research and development expenses. Higher European operations selling expenses and the effects of foreign currency translation accounted for the remainder of the year-over-year operating expense change.

Specialty Products

Net sales and gross profit for the first half of 2013 were essentially unchanged from net sales and gross profit reported for the same period of 2012. Operating income declined $0.3 million, or four percent, year over year due to higher patent fees and legal expenses.

Corporate Expenses

Corporate expenses declined $1.8 million (eight percent) to $22.8 million for the first half of 2013 from $24.6 million for the first half of 2012. The decrease in corporate expenses was attributable to a $3.7 million decline in deferred compensation expense ($1.3 million for the first half of 2013 compared to $5.0 million for the first half of 2012). A smaller increase in the value of Company stock for the first half of 2013 compared to the increase for the first half of 2012 led to the reduction in deferred compensation expense. The value of Company stock increased $0.07 per share for the first half of 2013 compared to $7.01 per share for the first half of 2012. The following table presents the quarter end Company common stock market prices used in the computation of deferred compensation expense:

	2013	2012		2011
	June 30	December 31	June 30	December 31
Company Stock Price	$55.61	$ 55.54	$47.09	$ 40.08

Increases in legal, expatriate and salary expenses offset the effect of deferred compensation by $0.8 million, $0.5 million and $0.4 million, respectively. Much of the increases in these expenses reflected costs to support the various growth and innovation initiatives undertaken by the Company.

LIQUIDITY AND CAPITAL RESOURCES

For the first six months of 2013, operating activities were a source of $41.8 million compared to $36.8 million for the comparable period in 2012. For the current year period, investing cash outflows totaled $108.4 million and non-debt financing activities consumed $4.3 million. To fund these requirements, the Company increased debt by $103.6 million. Cash was increased by $30.0 million with exchange rates reducing cash by $2.7 million.

For the current year-to-date, net income was down $2.2 million and working capital consumed $7.0 million less than during the comparable period in 2012. Cash outflows for investing activities increased by $66.4 million year over year. Cash provided by financing activities was a source of $99.3 million in 2013 versus a use of $9.2 million in 2012.

For the current year-to-date, accounts receivable were a use of $49.2 million versus a use of $19.7 million use for the comparable year-ago period. Inventories were a use of $4.0 million in 2013 versus a use of $28.0 million in 2012. Accounts payable and accrued liabilities were a source of $29.5 million in 2013 versus a source of $12.3 million in 2012.

During the first six months of both 2013 and 2012, changes in raw material costs had little effect on working capital. 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. Fluctuations in raw material costs translate directly to inventory carrying costs and indirectly to customer selling prices and accounts receivable.

The increased current year accounts receivable cash use was driven mainly by second quarter 2013 net sales, which exceeded fourth quarter 2012 net sales more than for the comparable quarters last year. Accounts receivable turnover did not change significantly between December 31, 2012, and June 30, 2013 and turnover was not a significant factor in the year-over-year cash flow comparisons. The year-to-date inventory cash use was driven mainly by higher quantities to support customer service levels for the U.S. The Company has not changed its own payments 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 the remainder of 2013.

Investing cash outflows for the first half of 2013 included capital expenditures of $42.0 million compared to $40.8 million for the comparable year-ago period. Current year investing outflows also included $62.6 million for the acquisition of the North American polyester resins business of BMS, discussed previously. Other investing activities consumed $3.7 million in 2013 versus $1.1 million in 2012.

For 2013, the Company estimates that capital expenditures will range from $105 million to $110 million including capacity expansions in Brazil, Germany, China and the United States.

The Company purchases its common shares in the open market from time to time to fund its own benefit plans and also to mitigate the dilutive effect of new shares issued under its benefit 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. For the first half of 2013, the Company purchased 41,688 shares in the open market at a total cost of $2.3 million. As of June 30, 2013, there were 958,312 shares remaining under the current share repurchase authorization.

At June 30, 2013, the Company's cash and cash equivalents totaled $106.9 million, including $47.4 million in two separate U.S. money market funds, each of which was rated AAA by Standard and Poor's and Aaa by Moody's. Cash in U.S. demand deposit accounts totaled $8.4 million and cash of the Company's non-U.S. subsidiaries held outside the U.S. totaled $51.1 million as of June 30, 2013.

Total Company balance sheet debt increased by $103.0 million for the current year to date, from $182.4 million to $285.4 million with increases of $100.0 million in domestic debt and $3.0 million in foreign debt. Net debt (which is defined as total debt minus cash) increased by $73.1 million for the current year to date, from $105.5 million to $178.6 million. At June 30, 2013, the ratio of total debt to total debt plus shareholders' equity was 35.9 percent compared to 27.5 percent at December 31, 2012. At June 30, 2013, the ratio of net debt to net debt plus shareholders' equity was 26.0 percent compared to 18.0 percent at December 31, 2012.

At June 30, 2013, the Company's debt included $252.1 million of unsecured private placement loans with maturities extending from 2013 through 2025. 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.

On June 27, 2013, the Company entered into a $100.0 million long-term private placement loan with five insurance companies. This loan bears interest at a fixed rate of 3.86% with interest to be paid semi-annually and with equal annual principal payments beginning on June 27, 2019, and continuing through final maturity on June 27, 2025. Stepan used the net proceeds from the issuance of the Notes primarily to finance the Company's recent acquisition of the North American Polyester Resins business of BMS, including the production facility located in Columbus, Georgia and expects to use the remaining proceeds for related capital expenditures and working capital as well as for general corporate purposes. This loan agreement requires the maintenance of certain financial ratios and covenants that are substantially identical to the Company's existing long-term debt and customary events of default.

The Company has a committed $125.0 million multi-currency syndicated revolving credit agreement. The credit agreement allows the Company to make unsecured borrowings, as requested from time to time, for working capital and other corporate purposes. This unsecured facility is the Company's primary source of short-term borrowings and is committed through September 20, 2017, with terms and conditions that are substantially equivalent to those of the Company's other U.S. loan agreements. At June 30, 2013, the Company had outstanding letters of credit of $2.8 million and no borrowings under this agreement, with $122.2 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 for the foreseeable future.

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 June 30, 2013, the Company's European subsidiaries had bank term loans of $6.9 million with maturities through 2016 and short-term bank debt of $21.0 million with remaining short-term borrowing capacity of $13.4

million. The Company's Latin American subsidiaries had no short-term bank debt with $9.9 million of unused short-term borrowing capacity. The Company's Philippine subsidiary had $3.9 million of short-term bank loans, which were guaranteed by the Company, with $4.1 million of unused borrowing capacity. The Company's majority-owned joint venture in China had short-term bank debt of $1.5 million, with unused borrowing capacity of $5.0 million, on bank credit lines guaranteed by the Company.

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 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 the 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 $275.0 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 after December 31, 2011, in amounts of up to $100.0 million plus 100 percent of net income and cash proceeds of stock option exercises, measured cumulatively after June 30, 2012. The maximum amount of dividends that could have been paid within this limitation is disclosed as unrestricted retained earnings in Note 13, Debt, in the Notes to Consolidated Financial Statements.

The Company believes it was in compliance with all of its loan agreements as of June 30, 2013. Based on current projections, the Company believes it will be in compliance with its loan agreements throughout 2013.

ENVIRONMENTAL AND LEGAL MATTERS

The Company is subject to extensive federal, state and local environmental laws and 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 the first six months of 2013 and 2012, the Company’s expenditures for capital projects related to the environment were $2.6 million and $1.4 million, respectively. 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 $8.6 million and $8.9 million for the six months ended June 30, 2013 and 2012, respectively. 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. It is the Company’s accounting policy to record 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 the range is a better estimate than any other amount, the minimum 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. After partial remediation payments at certain sites, the Company has estimated a range of possible environmental and legal losses of $10.0 million to $29.0 million at June 30, 2013, compared to $10.3 million to $28.9 million at December 31, 2012. At June 30, 2013, and December 31, 2012, the Company’s accrued liability for such losses, which represented the Company’s best estimate within the estimated range of possible environmental and legal losses, was $15.1 million and $15.4 million, respectively. During the first six months of 2013, cash outlays related to legal and environmental matters approximated $1.3 million compared to $1.5 million for the first six months of 2012.

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. Certain of these matters are discussed in Item 1, Part 2, Legal Proceedings, in this report and in other filings of the Company with the Securities and Exchange Commission, which are available upon request from the Company. See also Note 8 to the condensed consolidated financial statements for a summary of the environmental proceedings related to certain environmental sites.

OUTLOOK

Despite the lower first half operating results, management remains optimistic about the Company’s long-term growth.

Global surfactant consumer product volumes should continue to grow, particularly in Brazil. Higher raw material cost inventory built to support the Company’s Singapore plant start-up and the subsequent decline in commodity prices negatively impacted the Company’s first half surfactant margins by approximately $3.0 million and will potentially have up to $1.7 million negative effect in the second half. The Singapore methyl ester plant is operational and should contribute to earnings in the second half. Surfactants sold for use in enhanced oil recovery are expected to improve compared to the slow first half. Demand for agricultural surfactants should remain strong.

The polymer segment is experiencing steady improvement in polyol volume after a slow start due to protracted winter weather delaying many roof insulation projects. The second quarter acquisition of the North America polyester resin business from BMS should be modestly accretive to earnings in 2013 and more so after new capacity is added to manufacture additional polyol products for the CASE markets.

The slow start to the year will make full year earnings growth an aggressive target. Management will continue to pursue investments that can accelerate Company growth.

CRITICAL ACCOUNTING POLICIES

There have been no changes to the critical accounting policies disclosed in the Company’s 2012 Annual Report on Form 10-K.

Item 3 – Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes to the market risks disclosed in the Company’s 2012 Annual Report on Form 10-K.

Item 4 – Controls and Procedures

a. Evaluation of Disclosure Controls and Procedures

Based on their evaluation of our disclosure controls and procedures as of the end of the most recent fiscal quarter covered by this Form 10-Q, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934) were effective as of June 30, 2013.

b. Changes in Internal Control Over Financial Reporting

There were no changes in internal controls that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II OTHER INFORMATION

Item 1 – Legal Proceedings

There have been no material changes to the legal proceedings disclosed in the Company's 2012 Annual Report on Form 10-K.

Item 1A – Risk Factors

There have been no material changes from the risk factors disclosed in the Company's 2012 Annual Report on Form 10-K.

Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds

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
April	2,100	$ 58.03	—	—
May	34,357	$ 54.67	—	—
June	5,231	$ 52.51	—	—

Item 3 – Defaults Upon Senior Securities

None

Item 4 – Mine Safety Disclosures

Not applicable

Item 5 – Other Information

None

Item 6 – Exhibits

(a)	Exhibit 3(a)	–	Copy of Amended and Restated Certificate of Incorporation of Stepan Company, filed May 1, 2013, with the State of Delaware
(b)	Exhibit 10(a)	–	Copy of Note Purchase Agreement, dated as of June 27, 2013, regarding 3.86% Senior Notes due June 27, 2025, included with the Company's Current Report on Form 8-K filed on July 3, 2013, and incorporated herein by reference
(c)	Exhibit 31.1	–	Certification of President and Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a)/15d-14(a)
(d)	Exhibit 31.2	–	Certification of Vice President and Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a)/15d-14(a)
(e)	Exhibit 32	–	Certification pursuant to 18 U.S.C. Section 1350
(f)	Exhibit 101.INS	–	XBRL Instance Document
(g)	Exhibit 101.SCH	–	XBRL Taxonomy Extension Schema Document
(h)	Exhibit 101.CAL	–	XBRL Taxonomy Extension Calculation Linkbase Document
(i)	Exhibit 101.DEF		XBRL Taxonomy Extension Definition Document
(j)	Exhibit 101.LAB	–	XBRL Taxonomy Extension Label Linkbase Document
(k)	Exhibit 101.PRE	–	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

STEPAN COMPANY

Date: July 31, 2013

/s/ James. E. Hurlbutt

James. E. Hurlbutt

Vice President and Chief Financial Officer

AMENDED AND RESTATED CERTIFICATE OF INCORPORATION

OF

STEPAN COMPANY

Stepan Company, a Delaware corporation (the "Corporation"), does hereby certify that:

1. The name of the Corporation is Stepan Company and the name under which the corporation was originally incorporated was Delaware Stepan Chemical Company. The date of filing its original Certificate of Incorporation with the Secretary of State of Delaware was February 19, 1959.

2. Pursuant to Sections 242 and 245 of the General Corporation Law of the State of Delaware, this Amended and Restated Certificate of Incorporation restates and further amends provisions of the Corporation's Certificate of Incorporation as heretofore amended or supplemented.

3. The Board of Directors duly adopted resolutions proposing to amend and restate the Certificate of Incorporation of the Corporation, declaring said amendment and restatement to be advisable and in the best interests of the Corporation and its stockholders, and authorizing the appropriate officers of the Corporation to solicit the approval of the stockholders therefor.

4. The Corporation's Amended and Restated Certificate of Incorporation hereby is amended and restated to read in its entirety as follows:

ARTICLE I

The name of the corporation is STEPAN COMPANY.

ARTICLE II

Its principal office in the State of Delaware is located at Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801 in the County of New Castle. The name and address of its registered agent is The Corporation Trust Company.

ARTICLE III

The nature of the business, or objects or purposes to be transacted, promoted or carried on are To manufacture, compound, prepare, buy, sell, deal in and use chemicals, alkalis, dye stuffs, colors, essential oils, insecticides, fungicides, pharmaceuticals, drugs and any and all other chemical products, by-products, allied products and compounds, together with all allied and interdependent lines of business; and to manufacture, sulphonate, hydrogenate, blow, compound, prepare, buy, sell, deal in and use animal, marine, mineral and vegetable oils.

To manufacture, purchase or otherwise acquire, and to hold, own, use, sell or otherwise dispose of and deal in and with, at wholesale and retail, goods, wares and merchandise and personal property of every class and description.

To acquire, and pay for in cash, stock or bonds of this corporation or otherwise, the good will, rights, assets and property, and to undertake or assume the whole or any part of the obligations or liabilities of any person, firm, association or corporation.

To acquire, hold, use, sell, assign, lease, grant licenses in respect of, mortgage or otherwise dispose of letters patent of the United States or any foreign country, patent rights, licenses and privileges, inventions, improvements and processes, copyrights, trade-marks and trade names, relating to or useful in connection with any business of this corporation.

To acquire by purchase, subscription or otherwise, and to receive, hold, own, guarantee, sell, assign, exchange, transfer, mortgage, pledge or otherwise dispose of or deal in and with any of the shares of the capital stock, or any voting trust certificates in respect of the shares of capital stock, scrip, warrants, rights, bonds, debentures, notes, trust receipts and other securities, obligations, chooses in action and evidences of indebtedness or interest issued or created by any corporations, joint stock companies, syndicates, associations, firms, trusts or persons, public or private, or by the government of the United States of America, or by any foreign government, or by any state, territory, province, municipality or other political subdivision or by any governmental agency, and as owner thereof to possess and exercise all the rights, powers and privileges of ownership, including the right to execute consents and vote thereon, and to do any and all acts and things necessary or advisable for the preservation, protection, improvement and enhancement in value thereof. Nothing herein contained shall authorize the corporation to engage in the business of discounting bills and notes or the buying and selling of bills of exchange.

To enter into, make and perform contracts of every kind and description with any person, firm, association, corporation, municipality, county, state, body politic or government or colony or dependency thereof.

To borrow or raise moneys for any of the purposes of the corporation and, from time to time, without limit as to amount to draw, make, accept, endorse, execute and issue promissory notes, drafts, bills of exchange, warrants, bonds, debentures and other negotiable or non-negotiable instruments and evidences of indebtedness, and to secure the payment of any thereof and of the interest thereon by mortgage upon or pledge, conveyance or assignment in trust of the whole or any part of the property of the corporation, whether at the time owned or thereafter acquired, and to sell, pledge or otherwise dispose of such bonds or other obligations of the corporation for its corporate purposes.

To loan to any person, firm or corporation any of its surplus funds, either with or without security, provided, that no loan of money shall be made by the corporation to any officer of the corporation.

To purchase, hold, sell and transfer the shares of its own capital stock; provided it shall not use its funds or property for the purchase of its own shares of capital stock when such use would cause any impairment of its capital except as otherwise permitted by law, and provided further that shares of its own capital stock belonging to it shall not be voted upon directly or indirectly.

To have one or more offices, to carry on all or any of its operations and business and without restriction or limit as to amount to purchase or otherwise acquire, hold, own, mortgage, sell, convey, or otherwise dispose of real and personal property of every class and description in any of the states, districts, territories or colonies of the United States, and in any and all foreign countries, subject to the laws of such state, district, territory, colony or country.

In general, to carry on any other business in connection with the foregoing, and to have and exercise all the powers conferred by the laws of Delaware upon corporations formed under the General Corporation Law of the State of Delaware, and to do any or all the things hereinbefore set forth to the same extent as natural persons might or could do.

The objects and purposes specified in the foregoing clauses shall, except where otherwise expressed, be in nowise limited or restricted by reference to, or inference from the terms of any other clause in this certificate of incorporation, but the objects and purposes specified in each of the foregoing clauses of this article shall be regarded as independent objects and purposes.

ARTICLE IV

The total number of shares of stock which the corporation shall have authority to issue is Sixty Two Million (62,000,000) shares, of which Sixty Million (60,000,000) shares shall be Common Stock of a par value of $1.00 per share, and Two Million (2,000,000) shares shall be Preferred Stock without par value.

No holder of shares of any class of the corporation shall have any preemptive or preferential right to subscribe to or purchase any shares of any class of the corporation, whether now or hereafter authorized, or any shares or securities of any kind, whether or not convertible into or evidencing or carrying any right to subscribe to or purchase shares of any class of the corporation now or hereafter authorized, other than such rights, if any, as the board of directors in its discretion may from time to time determine and at such price or prices, permitted by law, as the board of directors may from time to time determine, but any and all such shares and securities may be issued, sold or disposed of from time to time by the board of directors to such persons, firms and corporations and for such consideration, permitted by law, whether cash, services, property or otherwise, as the board of directors may from time to time determine.

The designations and the powers, preferences and rights, and the qualifications, limitations or restrictions thereof shall be as follows:

A. COMMON STOCK

1. Dividend Rights

Subject to the prior rights of the holders of all classes of stock at the time outstanding having prior rights as to dividends, the holders of the Common Stock shall be entitled to receive, when and as declared by the Board of Directors, out of the assets of the corporation legally available therefor, such dividends as may be declared from time to time by the Board of Directors.

2. Liquidation Rights

Upon the voluntary or involuntary dissolution, liquidation or winding-up of the corporation, after the payment in full of all preferential amounts to which the holders of all classes of stock at the time outstanding having prior rights thereto shall be entitled, the remainder of the assets of the corporation shall be distributed equally among the shares of Common Stock at the time outstanding.

3. Voting Rights

At all meetings of the stockholders, each holder of record of common stock shall be entitled to vote and have one vote for each share held by him of record.

B. PREFERRED STOCK

The Board of Directors of the corporation shall have authority to fix by resolution or resolutions in accordance with the laws of the State of Delaware, the designations and the powers, preferences and rights, and the qualifications, limitations or restrictions of the Preferred Stock, including (without limitation) the authority to issue from time to time one or more series of the Preferred Stock and to fix any dividend, liquidation, redemption, voting or conversion characteristics of the Preferred Stock of any series thereof.

Eight Hundred Thousand (800,000) shares of the Preferred Stock have been designated by the Board of Directors as "5 1/2% Convertible Preferred Stock" with the relative rights, preferences and powers designated within the Amended Certificate of Designation, Preferences and Rights of 5 1/2% Convertible Preferred Stock Without Par Value attached hereto, incorporated herein by reference and made a part hereof.

ARTICLE V

The minimum amount of capital with which the corporation will commence business is One Thousand Dollars ($1,000).

ARTICLE VI

[Intentionally omitted]

ARTICLE VII

The corporation is to have perpetual existence.

ARTICLE VIII

The private property of the stockholders shall not be subject to the payment of corporate debts to any extent whatever.

ARTICLE IX

In furtherance and not in limitation of the powers conferred by statute, the board of directors is expressly authorized:

To make, alter or repeal the by-laws of the corporation.

To authorize and cause to be executed mortgages and liens upon the real and personal property of the corporation.

To set apart out of any of the funds of the corporation available for dividends a reserve or reserves for any proper purpose and to abolish any such reserve in the manner in which it was created.

By resolution passed by a majority of the whole board, to designate one or more committees, each committee to consist of two or more directors of the corporation, which, to the extent provided in the resolution or in the by-laws of the corporation, shall have and may exercise the powers of the board of directors in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all papers which may require it. Such committee or committees shall have such name or names as may be stated in the by-laws of the corporation or as may be determined from time to time by resolution adopted by the board of directors.

When and as authorized by the affirmative vote of the holders of a majority of the stock issued and outstanding having voting power given at a stockholders' meeting called for that purpose, or when authorized by the written consent of the holders of a majority of the voting stock issued and outstanding, to sell, lease or exchange all of the property and assets of the corporation, including its good will and its corporate franchises, upon such terms and conditions and for such consideration, which may be in whole or in part shares of stock in, and or other securities of, any other corporation or corporations, as its board of directors shall deem expedient and for the best interests of the corporation.

ARTICLE X

Section 1. No director of the corporation shall be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except (i) for any breach of a director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the General Corporation Law of Delaware, or (iv) for any transaction from which a director derived an improper personal benefit.

Section 2. The corporation shall indemnify, in accordance with and to the full extent now or hereafter permitted by law, any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (including, without limitation, an action by or in the right of the corporation), by reason of his acting as a director or officer of the corporation (and the corporation, in the discretion of the Board of Directors, may so indemnify a person by reason of the fact that he is or was an employee of the corporation or is or was serving at the request of the corporation in any other capacity for or on behalf of the corporation) against any liability or expense actually and reasonably incurred by such person in respect thereof. Such indemnification is not exclusive of any other right to indemnification provided by law or otherwise. The right to indemnification conferred by this Section shall be deemed to be a contract between the corporation and each person referred to herein.

Section 3. No amendment to or repeal of these provisions shall apply to or have any effect on the liability or alleged liability of any person for or with respect to any acts or omissions of such persons occurring prior to such amendment.

ARTICLE XI

In the absence of fraud, no contract or transaction between this corporation and any other corporation shall be affected by the fact that the directors of this corporation or any of them are interested in or are directors or officers of such other corporation, and any director individually may be a party to, or may be interested in any such contract or transaction of this corporation; and no such contract or transaction of this corporation with any person or persons, firm or association, shall be affected by the fact that any director of this corporation is a party to, or interested in such contract or transaction, or in any way connected with such person or persons, firm or association, provided that the interest in any such contract or transaction of any such director shall be fully disclosed, and that such contract or other transaction shall be authorized or ratified by the vote of a sufficient number of the directors of this corporation not so interested; and each and every person who may become a director in this corporation is hereby relieved from any liability that might otherwise exist from thus contracting with this corporation for the benefit of himself or any firm, association or corporation in which he may be in any wise interested.

ARTICLE XII

Whenever a compromise or arrangement is proposed between this corporation and its creditors or any class of them and/or between this corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this corporation or of any creditor or stockholder thereof, or on the application of any receiver or receivers appointed for this corporation under the provisions of Section 291 of Title 8 of the Delaware Code or on the application of trustees in dissolution or of any receiver or receivers appointed for this corporation under the provisions of Section 279 of Title 8 of the Delaware Code order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this corporation, as the case may be, to be summoned in such manner as the said Court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of this corporation as consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the Court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of this corporation, as the case may be, and also on this corporation.

ARTICLE XIII

Meetings of stockholders may be held without the State of Delaware, if the by-laws so provide. The books of the corporation may be kept (subject to any provision contained in the statutes) outside of the State of Delaware at such place or places as may be from time to time designated by the board of directors or in the by-laws of the corporation. Elections of directors need not be by ballot unless the by-laws of the corporation shall so provide.

ARTICLE XIV

The corporation reserves the right to amend, alter, change or repeal any provision contained in this certificate of incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

IN WITNESS WHEREOF, said STEPAN COMPANY has caused this Amended and Restated Certificate of Incorporation to be signed by H. Edward Wynn, its Vice President, General Counsel and Secretary, this 1st day of May, 2013.

By:	/s/ H. Edward Wynn
Name:	H. Edward Wynn
Title:	Vice President, General Counsel and Secretary

STEPAN COMPANY

Amended Certificate of Designation,

Preferences and Rights of

5 1/2% Convertible Preferred Stock

Without Par Value

Pursuant to Section 151 of the

General Corporation Law of the State of Delaware

STEPAN COMPANY, a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, DOES HEREBY CERTIFY:

FIRST: That at a meeting of the Board of Directors of STEPAN COMPANY (the "Corporation") an Amended Certificate of Designation, Preferences and Rights of 5 1/2% Convertible Preferred Stock Without Par Value (the "Amended Certificate of Designation") was adopted, subject to stockholder approval, and a meeting of the stockholders of the Corporation was called for consideration thereof. The original Certificate of Designation was adopted by the Board of Directors of the Corporation in 1992 pursuant to Section 151 of the General Corporation Law of the State of Delaware. The resolution setting forth the Amended Certificate of Designation is as follows:

RESOLVED, that pursuant to the authority granted to and vested in the Board of Directors of the Corporation by the provisions of the Certificate of Incorporation of the Corporation, and subject to the approval by the holders of the Corporation's Common Stock and the holders of the Corporation's 5 1/2% Convertible Preferred Stock, Without Par Value (the "5 1/2% Preferred Stock"), the Certificate of Designation, Preferences and Rights of the 5 1/2% Preferred Stock is amended effective at the close of business on April 30, 1993, so that the 5 1/2% Preferred Stock shall have the following powers, designations, preferences and relative, participating, optional or other rights (in addition to any applicable powers, designations, preferences and relative, participating, optional or other rights, and the qualifications, limitations and restrictions, that may be set forth in the Certificate of Incorporation of the Corporation which are applicable to the preferred stock authorized by Article FOURTH of the Corporation's Certificate of Incorporation, as amended, (the "Preferred Stock")):

1. Designation; Number of Shares; Par Value.

The designation of said shares of the Preferred Stock shall be 5 1/2% Convertible Preferred Stock. The number of shares of 5 1/2% Preferred Stock shall be limited to 800,000. Shares of the 5 1/2% Preferred Stock shall be without par value.

2. Dividends.

(a) The shares of 5 1/2% Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors or a duly authorized committee thereof (an "Authorized Board Committee"), out of funds legally available for the payment of dividends, cumulative cash dividends in the amount of $1.375 per share per annum, and no more. Dividends shall accumulate and be payable quarterly on the first day of March, June, September and December of each year (each a "Dividend Payment Date" or collectively, "Dividend Payment Dates"), commencing December 1, 1992, except that if any Dividend Payment Date is not a business day in Chicago, Illinois, then such quarterly dividend shall be payable on the next succeeding business day and such next succeeding business day shall be the Dividend Payment Date. Dividends on the shares of 5 1/2% Preferred Stock shall accrue and be cumulative from the date of their original issue and will be payable to stockholders of record on the record date, which shall be not more than 60 days nor less than 10 days preceding such Dividend Payment Date, fixed for such purpose by the Board of Directors or an Authorized Board Committee in advance of each particular Dividend Payment Date. The amount of dividends payable on shares of 5 1/2% Preferred Stock for each full quarterly dividend period shall be computed by dividing by four the amount per share per annum set forth in this paragraph 2. Dividends payable on the 5 1/2% Preferred Stock for the initial dividend period and for any period less than a full quarterly period shall be computed on the basis of a 360-day year of twelve 30-day months. Dividends paid on shares of 5 1/2% Preferred Stock in an amount less than the total amount of such dividends at the time accumulated and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding.

(b) So long as any shares of 5 1/2% Preferred Stock are outstanding, unless all accumulated dividends on all outstanding shares of 5 1/2% Preferred Stock have been paid or contemporaneously are declared and paid through the last Dividend Payment Date and full quarterly dividends on the 5 1/2% Preferred Stock have been or contemporaneously are declared and set apart for payment through the next succeeding Dividend Payment Date, no dividend shall be paid or declared and set apart for payment or any other distribution made upon the Common Stock or any other stock of the Corporation ranking junior to the 5 1/2% Preferred Stock as to payment of dividends (other than dividends paid or other distributions made in stock of the Corporation ranking junior to the 5 1/2% Preferred Stock as to payment or dividends and upon liquidation, dissolution or winding up), nor shall any Common Stock or any other stock of the Corporation ranking junior to the 5 1/2% Preferred Stock as to payment of dividends be redeemed, purchased or otherwise acquired for any consideration (or any money be paid to or made available for a sinking fund for the redemption of any shares of such stock) by the Corporation except by conversion of such junior stock into or exchange of such junior stock for stock of the Corporation ranking junior to the 5 1/2% Preferred Stock as to payment of dividends and upon liquidation, dissolution or winding up.

(c) Except as provided in the next sentence, no dividends shall be paid or declared and set apart for payment or any other distribution made (other than dividends paid or other distributions made in stock of the Corporation ranking junior to the 5 1/2% Preferred Stock as to payment of dividends and upon liquidation, dissolution or winding up) on the Preferred Stock or any other series ranking on a parity with the 5 1/2% Preferred Stock as to payment of dividends for any period unless all accumulated dividends on all outstanding shares of 5 1/2%

Preferred Stock have been paid or declared and set apart for payment or contemporaneously are paid or declared and set apart for payment through the last Dividend Payment Date and no dividends shall be paid or declared and set apart for payment or any other distribution made (other than dividends paid or other distributions made in stock of the Corporation ranking junior to the 5 1/2% Preferred Stock as to payment of dividends and upon liquidation, dissolution or winding up) on the 5 1/2% Preferred Stock unless all accumulated dividends on all outstanding shares of Preferred Stock of all other series ranking on a parity with the 5 1/2% Preferred Stock as to payment of dividends have been paid or declared and set apart for payment or contemporaneously are paid or declared and set apart for payment to the last date to which such dividends are payable. Whenever all accumulated dividends are not paid in full upon the 5 1/2% Preferred Stock or any other series of Preferred Stock ranking on a parity with the 5 1/2% Preferred Stock as to payment of dividends, all dividends declared or other distributions made upon shares of 5 1/2% Preferred Stock and any other series of Preferred Stock ranking on a parity with the 5 1/2% Preferred Stock as to the payment of dividends shall be declared or made pro rata so that the amount of dividends declared or other distributions made per share on the 5 1/2% Preferred Stock and such other series of Preferred Stock shall in all cases bear to each other the same ratio that accumulated and unpaid dividends per share on the shares of 5 1/2% Preferred Stock and such other series of Preferred Stock bear to each other. Any dividend paid upon the 5 1/2% Preferred Stock at the time when any accumulated dividends for any prior period are delinquent shall be expressly declared as a dividend in whole or partial payment of the accumulated dividend for the earliest period for which dividends are then delinquent, and shall be so designated to each stockholder to whom payment is made.

(d) Whenever all accumulated dividends are not paid in full upon the 5 1/2% Preferred Stock, no stock of the Corporation ranking on a parity with the 5 1/2% Preferred Stock as to the payment of dividends may be redeemed (pursuant to a sinking fund or otherwise), purchased or otherwise acquired for any consideration by the Corporation except (i) by means of a redemption pursuant to which all outstanding shares of the 5 1/2% Preferred Stock and all Preferred Stock of the Corporation ranking on a parity with the 5 1/2% Preferred Stock as to payments of dividends are redeemed or pursuant to which a pro rata redemption is made from all holders of the 5 1/2% Preferred Stock and all Preferred Stock of the Corporation ranking on a parity with the 5 1/2% Preferred Stock as to payment of dividends, the amount allocable to each series of such stock being determined on the basis of the aggregate liquidation preference of the outstanding shares of each series and the shares of each series being redeemed only on a pro rata basis, or (ii) by conversion of such parity Preferred Stock into, or exchange of such parity Preferred Stock for, stock of the Corporation ranking junior to the 5 1/2% Preferred Stock as to payment of dividends and upon liquidation, dissolution or winding up.

(e) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraphs (a) - (d) of this Section 2, and paragraph (c) of Section 3, purchase or otherwise acquire any shares at such time and in such manner.

3. Optional Redemption.

(a) The Corporation may, at its option, at any time on or after September 1, 1997, redeem all, or any number less than all, of the outstanding shares of 5 $^{1}/_{2}$% Preferred Stock. Any redemption of shares of 5 $^{1}/_{2}$% Preferred Stock shall be effected at the prices per share (expressed as a percentage of the Liquidation Preference (as defined in Section 5 hereof) per share during the twelve-month periods), set forth below:

If Redeemed During the Twelve Month-Period Beginning September 1	Redemption Price Per Share
1997	102.8%
1998	102.2%
1999	101.7%
2000	101.1%
2001	100.6%
2002	100.0%

and thereafter at 100% of the Liquidation Preference per share plus, in each case, an amount equal to all dividends (whether or not declared or due) accrued and unpaid on such shares of 5 $^{1}/_{2}$% Preferred Stock to the date fixed for redemption.

(b) Notwithstanding the foregoing provisions of this Section 3, and subject to the provisions of Section 2 hereof, whenever all accumulated dividends are not paid in full upon the 5 $^{1}/_{2}$% Preferred Stock, no shares of the 5 $^{1}/_{2}$% Preferred Stock may be redeemed (pursuant to a sinking fund or otherwise), purchased or otherwise acquired for any consideration by the Corporation, except (i) by means of a redemption pursuant to which all outstanding shares of the 5 $^{1}/_{2}$% Preferred Stock are simultaneously redeemed or pursuant to which the outstanding shares of the 5 $^{1}/_{2}$% Preferred Stock are redeemed on a pro rata basis or (ii) by conversion of shares of 5 $^{1}/_{2}$% Preferred Stock into, or exchange of such shares for, Common Stock or any other stock of the Corporation ranking junior to the 5 $^{1}/_{2}$% Preferred Stock as to payment of dividends and upon liquidation, dissolution or winding up.

(c) Notice of any proposed redemption of shares of 5 $^{1}/_{2}$% Preferred Stock shall be given by the Corporation by mailing a copy of such notice not less than 30 days nor more than 60 days prior to the date fixed for such redemption to holders of record of the shares of 5 $^{1}/_{2}$% Preferred Stock to be redeemed at their respective addresses appearing on the books of the Corporation. Said notice shall specify (i) the shares called for redemption, (ii) the redemption price, (iii) the place at which and the date on which the shares called for redemption will, upon presentation and surrender of the certificates of stock evidencing such shares, be redeemed and the redemption price and (iv) and the then effective Conversion Price (as defined in Section 4 below), and that the right of holders of shares of 5 $^{1}/_{2}$% Preferred Stock being redeemed to exercise their conversion right shall terminate as to such shares at the close of business on the date fixed for redemption, provided that no default by the Corporation in the payment of the redemption price (including any accrued and unpaid dividends) shall have occurred and be continuing. Subject to the provisions of paragraph 3(b) hereof, in the case of the redemption of less than all the outstanding shares of 5 $^{1}/_{2}$% Preferred Stock, the Corporation will select by lot, pro rata or in such other equitable manner as may be prescribed by the Board of Directors or an Authorized Board Committee the shares to be redeemed among all then outstanding shares of 5 $^{1}/_{2}$% Preferred Stock. From and after the date fixed in any such notice as the date of redemption of shares of 5 1/2% Preferred Stock, unless default shall be made by the Corporation in providing funds at the time and place specified for the payment of the redemption price (including any accrued and unpaid dividends) pursuant to such notice, all dividends on the 5 1/2% Preferred Stock thereby called for redemption shall cease to accrue, such shares of 5 1/2% Preferred Stock shall no longer be deemed to be outstanding and all rights of the holders thereof as stockholders of the Corporation, except the right to receive the redemption price (including any accrued and unpaid dividends), shall cease and terminate.

(d) The holder of any shares of 5 1/2% Preferred Stock redeemed upon any exercise of the Corporation's redemption right shall not be entitled to receive payment of the redemption price for such shares until such holder shall cause to be delivered to the place specified in the notice given with respect to such redemption (i) the certificates representing such shares of 5 1/2% Preferred Stock and (ii) transfer instrument(s) satisfactory to the Corporation and sufficient to transfer such shares of 5 1/2% Preferred Stock to the Corporation free of any adverse claim. No interest shall accrue on the redemption price of any share of 5 1/2% Preferred Stock after the date fixed for its redemption.

(e) All shares of 5 1/2% Preferred Stock which shall at any time have been redeemed shall, after such redemption, have the status of authorized but unissued shares of Preferred Stock, without designation as to series, and the number of shares of Preferred Stock which the Corporation shall have authority to issue shall not be decreased by the redemption of shares of 5 1/2% Preferred Stock.

4. Conversion Rights.

(a) Each share of the 5 1/2% Preferred Stock shall be convertible at the option of the holder thereof at any time (except that if any such share shall have been called for redemption, then, as to such share, such right shall terminate at the close of business on the date fixed for such redemption, unless default shall be made by the Corporation in making the payment due upon redemption) into fully paid and nonassessable shares of Common Stock. Subject to the provisions for adjustment hereinafter set forth shares of 5 1/2% Preferred Stock shall be convertible into fully paid and non-assessable shares of Common Stock of the Corporation at the rate of 0.57087 shares of Common Stock for each share of 5 1/2% Preferred Stock surrendered for conversion.

(b) The Common Stock deliverable upon conversion of 5 1/2% Preferred Stock shall be Common Stock of the Corporation, par value $1.00 per share as constituted at the date of this certificate, except as otherwise provided in subparagraph (i) of paragraph 4(e), and in paragraph 4(f).

(c) In order for any holder of 5 1/2% Preferred Stock to convert the same into Common Stock, such holder shall surrender the certificate or certificates for such 5 1/2% Preferred Stock at the office of the Transfer Agent for the 5 1/2% Preferred Stock during usual business hours, which certificate or certificates, if the Corporation shall so request, shall be duly endorsed to the Corporation or in blank, or accompanied by proper instruments of transfer to the Corporation or in blank, and shall give written notice to the Corporation at such office that he elects so to convert such 5 1/2% Preferred Stock, and state in writing therein the name or names in which he wishes the certificate or certificates for Common Stock to be issued. Shares of 5 1/2% Preferred Stock surrendered for conversion during the period from the close of business on any record date for the payment of dividends next preceding any Dividend Payment Date to the opening of business of such Dividend Payment Date shall (except in the case of shares which have been called for redemption on a redemption date within such period) be accompanied by payment in funds acceptable to the Corporation of an amount equal to the dividend payable on such Dividend Payment Date on the shares being surrendered for conversion.

(d) The Corporation will, as soon as practicable after such deposit of certificates for 5 1/2% Preferred Stock accompanied by the written notice and the statement above prescribed and the payment of any amount required by the provisions of paragraph 4(c), deliver at said office to the person for whose account such 5 1/2% Preferred Stock was so surrendered, or to his nominee or nominees, certificates for the number of shares of Common Stock to which he shall be entitled as aforesaid, together with any cash adjustment of any fraction of a share as hereinafter provided. Subject to the following provisions of this paragraph, such conversion shall be deemed to have been made immediately prior to the close of business on the date of such surrender of the 5 1/2% Preferred Stock to be converted, and the person or persons entitled to receive the Common Stock deliverable upon conversion of such 5 1/2% Preferred Stock shall be treated for all purposes as the record holder or holders of such Common Stock on such date. The Corporation shall not be required to convert any shares of 5 1/2% Preferred Stock while the stock transfer books of the Corporation are closed for any purpose; but the surrender of 5 1/2% Preferred Stock for conversion during any period while such books are so closed shall become effective for conversion upon reopening of such books, as if the surrender had been made immediately prior to the close of business on the date of such reopening, and conversion shall be at the Conversion Rate in effect of such date. Except as provided in the last sentence of paragraph 4(c), no adjustments in respect of, or payments of dividends on, shares surrendered for conversion of any dividend on the Common Stock issued upon conversion, shall be made upon the conversion of any shares of 5 1/2% Preferred Stock; provided, however, that if any shares shall be converted subsequent to the close of business on the record date next preceding a Dividend Payment Date but prior to the close of business on such Dividend Payment Date (except shares called for redemption between such record date and Dividend Payment Date) the registered holder of such shares at the close of business on such record date shall be entitled to receive the dividend payable on such record date shall be entitled to receive the dividend payable on such shares on such Dividend Payment Date notwithstanding the conversion thereof or the Corporation’s default on payment of the dividend due on such Dividend Payment Date.

(e) The Conversion Rate shall be subject to adjustment as follows:

(i) In case the Corporation shall (A) pay a dividend on its Common Stock in shares of its Common Stock, (B) subdivide its outstanding shares of Common Stock into a greater number of shares, or (C) combine its outstanding shares of Common Stock into a smaller number of shares, the Conversion Rate in effect at the time of the record date of such dividend, or the effective date of such subdivision or combination, as the case may be, shall be proportionately adjusted so that the holder of any 5 1/2% Preferred Stock surrendered for conversion after such time shall be entitled to receive the number and kind of shares which he would have owned or have been entitled to receive had such 5 1/2% Preferred Stock been converted immediately prior to such time. Such adjustment shall be made successively whenever any event listed above shall occur and shall become effective retroactively to immediately after the record date of such dividend or immediately after the effective date of such subdivision or combination.

(ii) Unless the holders of shares of 5 1/2% Preferred Stock shall be permitted to subscribe for or purchase shares of Common Stock on the same basis as if theretofore converted into Common Stock, in case the Corporation shall issue rights or warrant to all holders of its Common Stock entitling them (for a period expiring within 45 days after the record date for the determination of stockholders entitled to receive such rights or warrants) to subscribe or purchase shares of Common Stock at a price per share less than the Current Market Price (as defined below) per share of Common Stock on such record date, then in each such case the Conversion Rate shall be adjusted to equal the rate determined by multiplying the Conversion Rate in effect immediately prior to such record date by a fraction of which the numerator shall be the number of shares of Common Stock outstanding on such record date plus the number of additional shares of Common Stock offered for subscription or purchase pursuant to such rights or warrants and of which the denominator shall be the number of shares of Common Stock outstanding on such record date plus the number of share of Common Stock which the aggregate offering price of the total number of shares so offered pursuant to such rights or warrants would purchase at such Current Market Price. Such adjustment shall be made successively whenever such rights or warrants are issued, and shall become effective retroactively to immediately after the record date for the determination of stockholders entitled to receive such rights or warrants; provided, however, in the event that all the shares of Common Stock offered for subscription or purchase are not delivered upon the exercise of such rights or warrants, upon the expiration of such rights or warrants the Conversion Rate shall be readjusted to the Conversion Rate which would have been in effect had the numerator and the denominator of the foregoing fraction and the resulting adjustment been made based upon the number of shares of Common Stock actually delivered upon the exercise of such rights or warrants rather than upon the number of shares of Common Stock offered for subscription or purchase. For the purposes of this subparagraph (ii), the number of shares of Common Stock at any time outstanding shall not include shares held in the treasury of the Corporation but shall include shares issuable in respect of scrip certificates issues in lieu of fractions of shares of Common Stock.

(iii) In case the Corporation shall distribute to all holders of its Common Stock shares of its capital stock (other than Common Stock), evidences of indebtedness or assets of the Corporation (excluding dividends paid in, or distributions of, cash from the retained earnings of the Corporation) or subscription rights or warrants to subscribe for or purchase securities of the Corporation (excluding those referred to in subparagraph (ii) above), then in each such case the Conversion Rate shall be adjusted to equal the price determined by multiplying the Conversion Rate in effect immediately prior to the record date for the determination of stockholders entitled to receive such distribution by a fraction of which the numerator shall be the Current Market Price per share of the Common Stock on such record date and of which the denominator shall be such Current Market Price per share of Common Stock less the fair market value (as determined by the Board of Directors or an Authorized Board Committee thereof, whose determination shall be conclusive) of the portion of the capital stock, evidences of indebtedness, assets or subscription rights or warrants distributed applicable to one share of Common Stock. Such adjustment shall be made successively whenever any such distribution is made, and shall become effective retroactively to immediately after such record date.

(iv) For the purpose of any computation under subparagraphs (ii) and (iii) above, the "Current Market Price" per share of Common Stock on any date shall be deemed to be the average of the daily Closing Prices for the thirty consecutive trading days commencing forty-five business days before such date. The "Closing Price" for each day shall be the reported last sale price regular way or, in case no such reported sale takes place on such day, the average of the reported closing bid and asked prices regular way, in either case as reported on the American Stock Exchange Composite Tape, or, if at any time the Common Stock is not listed or admitted to trading on such Exchange, on the principal national securities exchange on which the Common Stock is listed or admitted to trading, or if the Common Stock is not listed or admitted to trading on any national securities exchange, on the National Association of Securities Dealers Automated Quotations National Market System, or, if the Common Stock is not listed or admitted to trading on any national securities exchange or quoted on such National Market System, the average of the closing bid and asked prices in the over-the-counter market as furnished by any New York Stock Exchange member firm selected from time to time by the Board of Directors or an Authorized Committee for such purpose.

(v) In any case in which this paragraph 4(e) shall require that an adjustment as a result of any event becomes effective retroactively to immediately after a record date or effective date for such event, the Corporation may elect to defer until after the occurrence of such event (A) issuing to the holder of any shares of 5 1/2% Preferred Stock converted after such record date and before the occurrence of such event the additional shares of Common Stock issuable upon such conversion over and above the shares of Common Stock issuable upon such conversion on the basis of the Conversion Rate prior to adjustment and (B) paying to such holder any amount in cash lieu of a fractional share of Common Stock pursuant to paragraph 4(g) below; and, in lieu of the shares the issuance of which and the cash the payment of which is so deferred, the Corporation shall issue or cause its Transfer Agent to issue due bills or other appropriate evidence of the right to receive such shares and such cash.

(vi) No adjustment to the Conversion Rate shall be required unless such adjustment would require an increase or decrease of at least 1% of the Conversion Rate; provided, however, that the Corporation may make any such adjustment at its election; and provided further, however, that any adjustments which by reason of this subparagraph (vi) are not made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this paragraph 4(e) shall be made to the nearest cent or to the nearest one-hundredth of a share, as the case may be. Anything in this paragraph 4(e) notwithstanding, the Corporation shall be entitled to make such decreases in the Conversion Rate, in addition to those required by this paragraph 4(e), as it in its discretion shall determine to be advisable in order that any stock dividend, subdivision or combination of shares, distribution of rights or warrants to purchase stock or securities, or distribution of securities convertible into or exchangeable for stock hereafter made by the Corporation to its stockholders shall not be taxable.

(vii) If the Corporation makes any distribution, dividend, issuance of rights or warrants or subdivision, combination or reclassification of or on the Common Stock, or any security to which the conversion right addressed in this Section 4 then applies, which is not covered by any of the preceding provisions of this paragraph (e) and which equitably requires an adjustment in the Conversion Rate, such adjustment shall be made as determined by the Board of Directors of the Corporation. In such case, the determination of the Board of Directors as to whether an adjustment in the Conversion Rate is required, the amount of any such adjustment, and the effective date of any such adjustment shall be conclusive.

(f) In case of any consolidation of the Corporation into, or merger of the Corporation with or into, any other corporation (other than a consolidation or merger in which the Corporation is the continuing corporation and which does not result in any reclassification or change of outstanding shares of Common Stock), or in case of any sale or transfer of all or substantially all of the assets of the Corporation, or in case of any reclassification or change of outstanding shares of Common Stock (other than a change in par value, or from par value to no par value, or from no par value to par value, or as a result of a subdivision or combination, but including any reclassification of the Common Stock into two or more classes), or in case of any statutory exchange of securities with another corporation (including any exchange effected in connection with a merger of a third corporation into the Corporation), the holder of each share of 5 1/2% Preferred Stock then outstanding shall have the right thereafter to convert such share only into the kind and amount of shares of stock and other securities, cash and other property receivable upon such consolidation, merger, sale, transfer, reclassification, change or statutory exchange by a holder of the number of shares of Common Stock of the Corporation into which such shares of 5 1/2% Preferred Stock might have been converted immediately prior to such consolidation, merger, sale, transfer, reclassification, change or statutory exchange (assuming that the holder of such share of 5 1/2% Preferred Stock, as a holder of Common Stock prior to such transaction, would not have exercised any rights of election as a holder of Common Stock as to the kind or amount of shares of stock and other securities, cash and other property receivable upon such consolidation, merger, sale, transfer, reclassification, change or statutory exchange; provided, that if the kind or amount of shares of stock and other securities, cash and other property receivable upon such consolidation, merger, sale, transfer, reclassification, change or statutory exchange is not the same for each non-electing share of Common Stock, then the kind and amount of shares of stock and other securities, cash or other property receivable shall be deemed to be the kind and amount so receivable by a plurality of the non-electing shares). In any such event, effective provision shall be made, in the articles or certificate of incorporation of the resulting or surviving corporation or other corporation issuing or delivering such shares, other securities, cash or other property or otherwise, so that the provisions set forth herein for the protection of the conversion rights of the 5 1/2% Preferred Stock shall thereafter be applicable, as nearly as reasonably may be, to any such other shares of stock and other securities, cash and other property deliverable upon conversion of the 5 1/2% Preferred Stock remaining outstanding or other convertible stock or securities received by the holders of the 5 1/2% Preferred Stock in place thereof; and any such resulting or surviving corporation or other corporation issuing or delivering such shares, other securities, cash and other property shall expressly assume the obligation to deliver, upon the exercise of the conversion privilege, such shares, securities, cash and other property as the holders of the 5 1/2% Preferred Stock remaining outstanding, or other convertible stock or securities received by the holders of the 5 1/2% Preferred Stock in place thereof, shall be entitled to receive, pursuant to the provision hereof, and to make provision for the protection of the conversion right as above provided. In case shares of stock, securities, cash or other property other than Common Stock shall be issuable or deliverable upon conversion as aforesaid, then all references to Common Stock in this paragraph 4 shall be deemed to apply, so far as provided and as nearly as is reasonable, to any such shares, other securities, cash or other property. The above provisions shall similarly apply to successive consolidations, mergers, sales, transfers, reclassification, changes or statutory exchanges.

(g) No fractional interests in Common Stock shall be issued upon conversion of shares of 5 1/2% Preferred Stock. If more than one share of 5 1/2% Preferred Stock shall be surrendered for conversion at one time by the same holder, the number of full shares of Common Stock issuable by the Corporation upon conversion thereof shall be computed on the basis of the aggregate number of shares of 5 1/2% Preferred Stock so surrendered. Instead of any fractional share of Common Stock which could otherwise be issuable upon conversion of any share of 5 1/2% Preferred Stock, the Corporation will pay a cash adjustment in respect of such fractional interest in an amount equal to the same fraction of the Closing Price (as defined in subparagraph 4(e)(iv) per share of Common Stock determined as of the business day preceding the date of conversion.

(h) Whenever any adjustment is required in the Conversion Rate or the number or type of shares of stock or other securities, cash or other property into which each share of 5 1/2% Preferred Stock is convertible, the Corporation shall forthwith (A) file with the Transfer Agent for the 5 1/2% Preferred Stock a statement describing in reasonable detail the adjustment of the Conversion Rate or conversion right, the date on which the adjustment became effective and the facts requiring such adjustment and (B) cause a copy of such statement to be mailed to the holders of record of the 5 1/2% Preferred Stock.

(i) Upon the conversion of shares of 5 1/2% Preferred Stock, the shares so converted shall have the status of authorized and unissued shares of Preferred Stock, without designation as to series, and the number of shares of Preferred Stock which the Corporation shall have authority to issue shall not be decreased by the conversion of shares of 5 1/2% Preferred Stock. The Corporation shall at all times reserve and keep available, free from preemptive rights, out of its authorized and unissued stock or stock held as a treasury stock, solely for the purpose of effecting the conversion of the 5 1/2% Preferred Stock, such number of shares of its Common Stock as shall from time to time be sufficient to effect the conversion of all shares of 5 1/2% Preferred Stock at such time outstanding. For the purposes of this paragraph 4(i), the full number of shares of Common Stock issuable upon the conversion of all outstanding shares of 5 1/2% Preferred Stock shall be computed as if at the time of computation of such number of shares of Common Stock all outstanding shares of 5 1/2% Preferred Stock were held by a single holder. The Corporation shall from time to time, in accordance with the laws of the State of Delaware, increase the authorized number of shares of its Common Stock if at any time the authorized number of shares of its Common Stock not outstanding shall not be sufficient to permit the conversion of all the then outstanding 5 1/2% Preferred Stock.

(j) The Corporation will pay any and all issue or other taxes that may be payable in respect of any issue or delivery of shares of Common Stock on conversion of 5 1/2% Preferred Stock pursuant hereto. The Corporation shall not, however, be required to pay any tax which may be payable in respect to any transfer involved in the issue or delivery of Common Stock in a name other than that in which the 5 1/2% Preferred Stock so converted was registered, and no such issue or delivery shall be made unless and until the person requesting such issue has paid to the Corporation the amount of such tax, or has established, to the satisfaction of the Corporation, that such tax has been paid.

(k) Before taking any action which would cause an adjustment reducing the Conversion Rate below the then par value of the Common Stock, the Corporation will take any corporate action which may, in the opinion of its counsel, be necessary in order that the Corporation may validly and legally issue paid and nonassessable shares of Common Stock at the Conversion Rate as so adjusted.

(l) In case: (i) the Corporation shall declare a dividend (or any other distribution) on its Common Stock (other than cash dividends paid out of the retained earnings of the Corporation and dividends payable in Common Stock); or (ii) the Corporation shall authorize the granting to the holders of its Common Stock of rights or warrants to subscribe for or purchase any shares of stock of any class or of any other rights or warrants; or (iii) of any reclassification or change of the Common Stock of the Corporation (other than a subdivision or combination of its outstanding Common Stock (but including any reclassification of the Common Stock into two or more classes), or a change in par value, or from par value to no par value, or from no par value to par value), or of any consolidation or merger to which the Corporation is a party or of any statutory exchange of securities with another corporation and for which approval of any stockholders of the Corporation is required, or of the sale or transfer of all or substantially all of the assets of the Corporation; or (iv) of the voluntary or involuntary dissolution, liquidation or winding up of the Corporation; then, in each such case, the Corporation shall mail to each holder of 5 1/2% Preferred Stock at least fifteen days prior to the applicable date hereinafter specified, a notice stating (A) the date on which a record is to be taken for the purpose of such dividend, distribution or rights or warrants or, if a record is not to be taken, the date as of which the holders of Common Stock of record to be entitled to such dividend, distribution or rights or warrants are to be determined, or (B) the date on which such reclassification, change, consolidation, merger, sale, transfer, statutory exchange, dissolution, liquidation or winding up is expected to become effective, and the date as of which it is expected that holders of Common Stock of record shall be entitled to exchange their shares of Common Stock for securities or other property deliverable upon such reclassification, change, consolidation, merger, sale, transfer, statutory exchange, dissolution, liquidation or winding up. Failure to give such notice, or any defect therein, shall not, however, affect the legality or validity of any action described in clauses (i), (ii), (iii) or (iv) of this paragraph 4(l).

5. Liquidation Preference.

Upon the dissolution, liquidation or winding up of the Corporation, whether voluntary or involuntary, the holders of 5 1/2% Preferred Stock shall be entitled to receive out of the assets of the Corporation available for distribution to stockholders, the amount of $25.00 (the “Liquidation Preference”) per share plus an amount equal to all dividends (whether or not declared or due) on such shares accrued and unpaid thereon to the date of final distribution, before any payment or distribution shall be made on the Common Stock or on any other class or series of stock ranking junior to the 5 1/2% Preferred Stock with respect to distributions upon liquidation, dissolution or winding up. For purposes of this Section 5, the merger or consolidation of the Corporation or the sale of all or substantially all of the Corporation’s assets shall not be deemed to be a liquidation, dissolution or winding up of the Corporation. In the event the assets of the Corporation available for distribution to the holders of shares of the 5 1/2% Preferred Stock upon any dissolution, liquidation or winding up of the Corporation shall be insufficient to pay in full all amounts to which such holders are entitled pursuant to this Section 5, no such distribution shall be made upon account of any shares of any other class or series of stock of the Corporation ranking on a parity with the shares of the 5 1/2% Preferred Stock upon such dissolution, liquidation or winding up unless proportionate distribution amounts shall be paid on account of the shares of the 5 1/2% Preferred Stock, ratably, in proportion to the full distributable amounts to which holders of all such parity shares are respectively entitled upon such dissolution, liquidation or winding up. After the payment of the holders of the shares of the 5 1/2% Preferred Stock of the full preferential amounts provided for in this Section 5, the holders of the 5 1/2% Preferred Stock as such shall have no right or claim to any of the remaining assets of the Corporation.

6. Voting Rights.

(a) The holder of each outstanding share of 5 1/2% Preferred Stock shall be entitled to 0.57087 votes per share on each matter submitted to a vote of stockholders of the Corporation and, except as provided by law, the holders of 5 1/2% Preferred Stock shall vote together with the holders of the Common Stock as a single class; provided, that whenever, through stock dividend or subdivision or combination of shares, the number of shares of Common Stock into which each share of 5 1/2% Preferred Stock is convertible is required, under the provisions of paragraph 4(e) hereof, to be adjusted, the vote to which the holder of each outstanding share of 5 1/2% Preferred Stock shall be entitled shall be increased or decreased, as the case may be, to that number which is equal to the number of shares of Common Stock into which such share of 5 1/2% Preferred Stock shall after such adjustment, be convertible.

(b) In exercising any voting rights as a separate class, each share of 5 1/2% Preferred Stock shall be entitled to one vote.

7. Amendment.

This Certificate of Designation, Preferences and Rights may be amended, altered or repealed by the unilateral action of the Board of Directors of the Corporation without the consent or vote of stockholders. Notwithstanding the preceding sentence, the Certificate of Incorporation of the Corporation (including this Certificate of Designation) shall not be amended, altered or repealed in any manner which would adversely affect the powers, preferences, or special rights of the 5 1/2% Preferred Stock without the affirmative vote or consent of the holders of at least a majority of the outstanding shares of 5 1/2% Preferred Stock, voting separately as a class; provided, that any increase in the authorized Preferred Stock or the creation and issuance of any other class or series of Preferred Stock ranking on a parity with or junior to the 5 1/2% Preferred Stock as to payment of dividends and upon liquidation, dissolution or winding up or any decrease in the number of shares which constitute the 5 1/2% Preferred Stock (but not below the number of shares thereof then outstanding) shall not be deemed to adversely affect such powers, preferences or special rights; and provided further that the subdivision of outstanding shares of 5 1/2% Preferred Stock into a greater number of shares or the combination of outstanding shares of 5 1/2% Preferred Stock into a smaller number of shares, which shall include an equitable adjustment in the dividend, conversion rate, liquidation preference and voting rights of the then outstanding shares of the 5 1/2% Preferred Stock shall not be deemed to adversely affect such powers, preferences or special rights.

SECOND: That thereafter, pursuant to resolution of its Board of Directors, the annual meeting of the stockholders of said corporation was duly called and held on April 28, 1993, upon notice in accordance with Section 222 of the General Corporation Law of the State of Delaware at which meeting the Amended Certificate of Designation was approved by the holders of the Corporation's Common Stock and by the holders of the 5 1/2% Preferred Stock.

THIRD: That the Amended Certificate of Designation was duly adopted in accordance with the provisions of Section 151 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, said STEPAN COMPANY has caused this corporate seal to be hereunto affixed and this certificate to be signed by F. QUINN STEPAN, its Chairman and President, and attested by JEFFREY W. BARTLETT, its Secretary, this 28th day of April, 1993.

STEPAN COMPANY

By: /s/ F. Quinn Stepan
Chairman and President

By: /s/ Jeffrey W. Bartlett
Secretary

Exhibit 31.1

CERTIFICATION OF PRESIDENT AND CHIEF EXECUTIVE OFFICER
PURSUANT TO EXCHANGE ACT RULE 13a – 14(a)/15d-14(a)

I, F. Quinn Stepan, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Stepan Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s independent registered public accounting firm and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: July 31, 2013

/s/ F. Quinn Stepan, Jr.

F. Quinn Stepan, Jr.
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF VICE PRESIDENT AND CHIEF FINANCIAL OFFICER
PURSUANT TO EXCHANGE ACT RULE 13a – 14(a)/15d-14(a)

I, James E. Hurlbutt, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Stepan Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's independent registered public accounting firm and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2013

/s/ James. E. Hurlbutt

James. E. Hurlbutt
Vice President and Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350

In connection with the Quarterly Report of Stepan Company (the “Company”) on Form 10-Q for the period ended June 30, 2013, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to such officer’s knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 31, 2013

/s/ F. Quinn Stepan, Jr.
Name: F. Quinn Stepan, Jr.
Title: President and Chief Executive Officer

/s/ James E. Hurlbutt
Name: James E. Hurlbutt
Title: Vice President and Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

A signed original of this certification has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.