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

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2019

☐ **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)

22 West Frontage Road, Northfield, Illinois 60093
(Address of principal executive offices)

Registrant's telephone number (847) 446-7500

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, $1 par value	SCL	New York Stock Exchange

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 October 22, 2019
Common Stock, $1 par value	22,505,067 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 September 30		Nine Months Ended September 30	
	2019	2018 As Adjusted	2019	2018 As Adjusted
Net Sales	$ 451,582	$ 507,997	$ 1,413,755	$ 1,527,198
Cost of Sales(1)	374,180	424,421	1,158,785	1,262,443
Gross Profit(1)	77,402	83,576	254,970	264,755
Operating Expenses:				
Selling	14,186	14,613	42,295	42,872
Administrative	19,708	21,904	60,558	59,441
Research, development and technical services	13,473	13,977	40,228	41,311
Deferred compensation expense	1,610	4,222	11,478	4,971
	48,977	54,716	154,559	148,595
Business restructuring expenses (Note 17)	(459)	(1,715)	(1,642)	(2,346)
Operating Income(1)	27,966	27,145	98,769	113,814
Other Income (Expense):				
Interest, net	(1,402)	(2,797)	(5,021)	(8,620)
Other, net (Note 16)	885	346	4,265	1,990
	(517)	(2,451)	(756)	(6,630)
Income Before Provision for Income Taxes(1)	27,449	24,694	98,013	107,184
Provision for Income Taxes(1)	1,569	2,940	16,945	20,033
Net Income(1)	25,880	21,754	81,068	87,151
Net Loss Attributable to Noncontrolling Interests (Note 3)	9	-	23	9
Net Income Attributable to Stepan Company(1)	$ 25,889	$ 21,754	$ 81,091	$ 87,160
Net Income Per Common Share Attributable to Stepan Company (Note 11):				
Basic(1)	$ 1.12	$ 0.95	$ 3.52	$ 3.78
Diluted(1)	$ 1.11	$ 0.93	$ 3.48	$ 3.74
Shares Used to Compute Net Income Per Common Share Attributable to Stepan Company (Note 11):				
Basic	23,025	22,986	23,070	23,036
Diluted	23,300	23,288	23,320	23,324

(1) The 2018 amounts for the noted line items have been retrospectively changed from the amounts originally reported as a result of the Company's first quarter 2019 change in method of accounting for U.S. inventory valuation from the last in, first out (LIFO) basis to the first in, first out (FIFO) basis.

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 September 30		Nine Months Ended September 30	
	2019	2018 As Adjusted	2019	2018 As Adjusted
Net income[1]	$ 25,880	$ 21,754	$ 81,068	$ 87,151
Other comprehensive income:				
Foreign currency translation adjustments[2] (Note 12)	(19,287)	(2,534)	(11,290)	(28,776)
Defined benefit pension adjustments, net of tax (Note 12)	473	788	1,558	2,293
Derivative instrument activity, net of tax (Note 12)	(2)	(2)	(6)	(7)
Total other comprehensive income	(18,816)	(1,748)	(9,738)	(26,490)
Comprehensive income [1]	7,064	20,006	71,330	60,661
Comprehensive loss attributable to noncontrolling interests (Note 3)	41	31	62	55
Comprehensive income attributable to Stepan Company[1]	$ 7,105	$ 20,037	$ 71,392	$ 60,716

(1) The 2018 amounts for the noted line items have been retrospectively changed from the amounts originally reported as a result of the Company's first quarter 2019 change in method of accounting for U.S. inventory valuation from LIFO to FIFO.

(2) Includes foreign currency translation adjustments related to noncontrolling interest.

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

STEPAN COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
Unaudited

(Dollars in thousands)	September 30, 2019	December 31, 2018 As Adjusted
Assets		
Current Assets:		
Cash and cash equivalents	$ 285,995	$ 300,194
Receivables, net	283,016	280,025
Inventories(1) (Note 2)(Note 7)	203,303	231,528
Other current assets	25,714	22,146
Total current assets(1)	798,028	833,893
Property, Plant and Equipment:		
Cost	1,713,245	1,666,790
Less: Accumulated depreciation	(1,101,966)	(1,057,898)
Property, plant and equipment, net	611,279	608,892
Goodwill, net	22,144	22,954
Other intangible assets, net	11,518	14,244
Long-term investments (Note 4)	26,389	25,082
Operating lease assets	38,027	—
Other non-current assets(1)	10,985	9,549
Total assets(1)	$ 1,518,370	$ 1,514,614
Liabilities and Equity		
Current Liabilities:		
Current maturities of long-term debt (Note 15)	$ 24,137	$ 37,058
Accounts payable	175,808	205,954
Accrued liabilities	93,018	95,570
Total current liabilities	292,963	338,582
Deferred income taxes(1)	25,218	24,961
Long-term debt, less current maturities (Note 15)	207,783	239,022
Non-current operating lease liabilities	29,064	—
Other non-current liabilities	108,435	103,864
Commitments and Contingencies (Note 9)		
Equity:		
Common stock, $1 par value; authorized 60,000,000 shares; Issued 26,481,229 shares in 2019 and 26,286,587 shares in 2018	26,481	26,309
Additional paid-in capital	191,404	182,881
Accumulated other comprehensive loss(2) (Note 12)	(156,507)	(141,483)
Retained earnings(1)(2)	906,612	837,107
Less: Common treasury stock, at cost, 3,976,162 shares in 2019 and 3,773,946 shares in 2018	(113,781)	(97,389)
Total Stepan Company stockholders' equity(1)	854,209	807,425
Noncontrolling interests (Note 3)	698	760
Total equity(1)	854,907	808,185
Total liabilities and equity(1)	$ 1,518,370	$ 1,514,614

(1) The 2018 amounts for the noted line items have been retrospectively changed from the amounts originally reported as a result of the Company's first quarter 2019 change in method of accounting for U.S. inventory valuation from LIFO to FIFO.

(2) The 2019 amounts for the noted line items include an adjustment related to the Company's first quarter 2019 adoption of ASU No. 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*.

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)	Nine Months Ended September 30 2019	Nine Months Ended September 30 2018 As Adjusted
Cash Flows From Operating Activities		
Net income(1)	$ 81,068	$ 87,151
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	58,545	60,778
Deferred compensation	11,478	4,971
Realized and unrealized gains on long-term investments	(2,806)	(1,241)
Stock-based compensation	7,045	6,722
Deferred income taxes(1)	(2,291)	6,846
Other non-cash items	2,192	1,370
Changes in assets and liabilities:		
Receivables, net	(8,959)	(34,807)
Inventories(1)	25,879	(23,366)
Other current assets	(3,750)	727
Accounts payable and accrued liabilities	(35,330)	(6,906)
Pension liabilities	(979)	(5,059)
Environmental and legal liabilities	800	(763)
Deferred revenues	(243)	(243)
Net Cash Provided By Operating Activities	132,649	96,180
Cash Flows From Investing Activities		
Expenditures for property, plant and equipment	(70,829)	(62,895)
Business acquisition (Note 18)	-	(21,475)
Other, net	2,332	1,684
Net Cash Used In Investing Activities	(68,497)	(82,686)
Cash Flows From Financing Activities		
Revolving debt and bank overdrafts, net	(6,929)	1,379
Other debt repayments	(37,143)	(5,714)
Dividends paid	(16,911)	(15,225)
Company stock repurchased	(13,184)	(13,500)
Stock option exercises	2,830	3,488
Other, net	(3,101)	(4,504)
Net Cash Used In Financing Activities	(74,438)	(34,076)
Effect of Exchange Rate Changes on Cash	(3,913)	(4,324)
Net Decrease in Cash and Cash Equivalents	(14,199)	(24,906)
Cash and Cash Equivalents at Beginning of Period	300,194	298,894
Cash and Cash Equivalents at End of Period	$ 285,995	$ 273,988
Supplemental Cash Flow Information		
Cash payments of income taxes, net of refunds/payments	$ 21,698	$ 25,190
Cash payments of interest	$ 9,311	$ 8,553

(1) The 2018 amounts for the noted line items have been retrospectively changed from the amounts originally reported as a result of the Company's first quarter 2019 change in method of accounting for U.S. inventory valuation from LIFO to FIFO.

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 (the 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 (GAAP) 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 September 30, 2019, and its results of operations for the three and nine months ended September 30, 2019 and 2018, and cash flows for the nine months ended September 30, 2019 and 2018, 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 2018 Annual Report on Form 10-K.

2. CHANGE IN METHOD OF ACCOUNTING FOR INVENTORY VALUTION

On January 1, 2019, the Company elected to change its method of accounting for U.S. inventories from the LIFO basis to the FIFO basis. Total U.S. inventories accounted for using the LIFO cost flow assumption, prior to the accounting method change, comprised 68 percent of the Company's total inventories as of December 31, 2018. Non-U.S. inventories have historically been maintained on the FIFO basis. The Company believes that this change to the FIFO method of inventory valuation is preferable as it provides a better matching of costs with the physical flow of goods, more accurately reflects the current market value of inventory presented on the Company's consolidated balance sheets, standardizes the Company's inventory valuation methodology and improves comparability with the Company's industry peers.

In accordance with ASC 250, *Accounting Changes and Error Corrections*, this change in method of accounting for U.S. inventories has been retrospectively applied to all prior periods presented herein. Prior period financial statements and financial comparables have been adjusted to reflect what results would have been had the Company always used the FIFO method of inventory valuation for U.S. inventories. The cumulative effect on retained earnings for these changes was $23.7 million at December 31, 2018.

The following tables present the prior year financial statement line items that have been affected by the retrospective change in accounting principle:

Income Statement

(In thousands, except per share amounts)	Three Months Ended September 30, 2018		
	As originally reported under LIFO	Effect of change	As adjusted under FIFO
Cost of Sales	$ 423,872	$ 549	$ 424,421
Gross Profit	84,125	(549)	83,576
Operating Income	27,694	(549)	27,145
Income Before Provision for Income Taxes	25,243	(549)	24,694
Provision for Income Taxes	3,075	(135)	2,940
Net Income	22,168	(414)	21,754
Net Income Attributable to Stepan Company	22,168	(414)	21,754
Net Income Per Diluted Common Share Attributable to Stepan Company	$ 0.95	$ (0.02)	$ 0.93

(In thousands, except per share amounts)	Nine Months Ended September 30, 2018		
	As originally reported under LIFO	Effect of change	As adjusted under FIFO
Cost of Sales	$ 1,264,223	$ (1,780)	$ 1,262,443
Gross Profit	262,975	1,780	264,755
Operating Income	112,034	1,780	113,814
Income Before Provision for Income Taxes	105,404	1,780	107,184
Provision for Income Taxes	19,597	436	20,033
Net Income	85,807	1,344	87,151
Net Income Attributable to Stepan Company	85,816	1,344	87,160
Net Income Per Diluted Common Share Attributable to Stepan Company	$ 3.68	$ 0.06	$ 3.74

Balance Sheet

(In thousands)	December 31, 2018		
	As originally reported under LIFO	Effect of change	As adjusted under FIFO
Inventories	$ 200,165	$ 31,363	$ 231,528
Other Non-Current Assets	10,964	(1,415)	9,549
Total Assets	1,484,666	29,948	1,514,614
Deferred Income Taxes	$ 18,672	$ 6,289	$ 24,961
Retained Earnings	813,448	23,659	837,107
Total Liabilities and Equity	1,484,666	29,948	1,514,614

Statement of Cash Flows

(In thousands)	Nine Months Ended September 30, 2018		
	As originally reported under LIFO	Effect of change	As adjusted under FIFO
Net Income	$ 85,807	$ 1,344	$ 87,151
Deferred Income Taxes	6,410	436	6,846
Change in Assets and Liabilities:			
Inventories	(21,586)	(1,780)	(23,366)

The following tables present what current year financial statement line items would have been had the Company not changed its method of accounting for U.S. inventories from the LIFO to FIFO basis:

Income Statement

(In thousands, except per share amounts)	Three Months Ended September 30, 2019		
	As reported under FIFO	Effect of change	As computed under LIFO
Cost of Sales	$ 374,180	$ (1,000)	$ 373,180
Gross Profit	77,402	1,000	78,402
Operating Income	27,966	1,000	28,966
Income Before Provision for Income Taxes	27,449	1,000	28,449
Provision for Income Taxes	1,569	246	1,815
Net Income	25,880	754	26,634
Net Income Attributable to Stepan Company	25,889	754	26,643
Net Income Per Diluted Common Share Attributable to Stepan Company	$ 1.11	$ 0.03	$ 1.14

(In thousands, except per share amounts)	Nine Months Ended September 30, 2019		
	As reported under FIFO	Effect of change	As computed under LIFO
Cost of Sales	$ 1,158,785	$ (3,000)	$ 1,155,785
Gross Profit	254,970	3,000	257,970
Operating Income	98,769	3,000	101,769
Income Before Provision for Income Taxes	98,013	3,000	101,013
Provision for Income Taxes	16,945	738	17,683
Net Income	81,068	2,262	83,330
Net Income Attributable to Stepan Company	81,091	2,262	83,353
Net Income Per Diluted Common Share Attributable to Stepan Company	$ 3.48	$ 0.10	$ 3.58

Balance Sheet

(In thousands)	September 30, 2019		
	As reported under FIFO	Effect of change	As computed under LIFO
Inventories	$ 203,303	$ (28,363)	$ 174,940
Other Non-Current Assets	10,985	1,415	12,400
Total Assets	1,518,370	(26,948)	1,491,422
Deferred Income Taxes	$ 25,218	$ (5,551)	$ 19,667
Retained Earnings	906,612	(21,397)	885,215
Total Liabilities and Equity	1,518,370	(26,948)	1,491,422

Statement of Cash Flows

(In thousands)	Nine Months Ended September 30, 2019		
	As reported under FIFO	Effect of change	As computed under LIFO
Net Income	$ 81,068	$ 2,262	$ 83,330
Deferred Income Taxes	(2,291)	738	(1,553)
Change in Assets and Liabilities:			
Inventories	25,879	(3,000)	22,879

3. RECONCILIATIONS OF EQUITY

Below are reconciliations of total equity, Company equity and equity attributable to noncontrolling interests for the three and nine months ended September 30, 2019 and 2018:

(In thousands, except share and per share amounts)	*Total*	*Common Stock*	*Additional Paid-in Capital*	*Treasury Stock*	*Accumulated Other Comprehensive Income (Loss)*	*Retained Earnings*	*Noncontrolling Interest* (1)
Balance at June 30, 2019	858,397	26,453	188,781	(106,202)	(137,723)	886,349	739
Issuance of 13,256 shares of common stock under stock option plan	667	13	654	—	—	—	—
Purchase of 73,821 shares of common stock	(7,003)	—	—	(7,003)	—	—	—
Stock-based and deferred compensation	1,408	15	1,969	(576)	—	—	—
Net income	25,880	—	—	—	—	25,889	(9)
Other comprehensive income	(18,816)	—	—	—	(18,784)	—	(32)
Cash dividends paid:							
Common stock ($0.25 per share)	(5,626)	—	—	—	—	(5,626)	—
Balance at September 30, 2019	$ 854,907	$ 26,481	$ 191,404	$ (113,781)	$ (156,507)	$ 906,612	$ 698

(In thousands, except share and per share amounts)	*Total*	*Common Stock*	*Additional Paid-in Capital*	*Treasury Stock*	*Accumulated Other Comprehensive Income (Loss)*	*Retained Earnings*	*Noncontrolling Interest* (1)
Balance at December 31, 2018(2)	$ 808,185	$ 26,309	$ 182,881	$ (97,389)	$ (141,483)	$ 837,107	$ 760
Issuance of 56,385 shares of common stock under stock option plan	2,830	56	2,774	—	—	—	—
Purchase of 144,457 shares of common stock	(13,184)	—	—	(13,184)	—	—	—
Stock-based and deferred compensation	2,657	116	5,749	(3,208)	—	—	—
Net income	81,068	—	—	—	—	81,091	(23)
Other comprehensive income	(9,738)	—	—	—	(9,699)	—	(39)
Cash dividends paid:							
Common stock ($0.75 per share)	(16,911)	—	—	—	—	(16,911)	—
Other (3)	—	—	—	—	(5,325)	5,325	—
Balance at September 30, 2019	$ 854,907	$ 26,481	$ 191,404	$ (113,781)	$ (156,507)	$ 906,612	$ 698

(In thousands, except share and per share amounts)	Total	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Noncontrolling Interest (1)
Balance at June 30, 2018(2)	789,096	26,279	177,779	(93,559)	(124,290)	802,093	794
Issuance of 5,032 shares of common stock under stock option plan	214	5	209	—	—	—	—
Purchase of 16,833 shares of common stock	(1,500)	—	—	(1,500)	—	—	—
Stock-based and deferred compensation	2,311	3	2,380	(72)	—	—	—
Net income (2)	21,754	—	—	—	—	21,754	—
Other comprehensive income	(1,748)	—	—	—	(1,717)	—	(31)
Cash dividends paid:							
Common stock ($0.23 per share)	(5,065)	—	—	—	—	(5,065)	—
Balance at September 30, 2018(2)	$ 805,062	$ 26,287	$ 180,368	$ (95,131)	$ (126,007)	$ 818,782	$ 763

(In thousands, except share and per share amounts)	Total	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Noncontrolling Interest (1)
Balance, December 31, 2017(2)	$ 766,218	$ 26,071	$ 170,408	$ (78,561)	$ (99,563)	$ 747,045	$ 818
Issuance of 85,394 shares of common stock under stock option plan	3,488	85	3,403	—	—	—	—
Purchase of 156,524 shares of common stock	(13,500)	—	—	(13,500)	—	—	—
Stock-based and deferred compensation	3,618	131	6,557	(3,070)	—	—	—
Net income (2)	87,151	—	—	—	—	87,160	(9)
Other comprehensive income	(26,490)	—	—	—	(26,444)	—	(46)
Cash dividends paid:							
Common stock ($0.70 per share)	(15,225)	—	—	—	—	(15,225)	—
Other (4)	(198)	—	—	—	—	(198)	—
Balance at September 30, 2018(2)	$ 805,062	$ 26,287	$ 180,368	$ (95,131)	$ (126,007)	$ 818,782	$ 763

(1) Reflects the noncontrolling interest in the Company's China joint venture.

(2) The retained earnings and net income amounts for the noted line items have been changed from the amounts originally reported as a result of the Company's first quarter 2019 change in method of accounting for U.S. inventory valuation from LIFO to FIFO.

(3) Reflects beginning retained earnings adjustment as a result of the Company's first quarter 2019 adoption of ASU No. 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. See Note 19 for more details.

(4) Reflects beginning retained earnings adjustment as a result of the Company's first quarter 2018 adoption of ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*.

4. FAIR VALUE MEASUREMENTS

The following were the financial instruments held by the Company at September 30, 2019, and December 31, 2018, and the methods and assumptions used to estimate the instruments' fair values:

Cash and cash equivalents

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

Derivative assets and liabilities

Derivative assets and liabilities include the foreign currency exchange 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. See the table below that describes financial assets and liabilities measured on a recurring basis for the reported fair values of derivative assets and liabilities.

Long-term investments

Long-term investments include the mutual fund assets the Company held 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 10). Fair value and carrying value were the same because the mutual fund assets were recorded at fair value. 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 the 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 within level 2 of the fair value hierarchy.

At September 30, 2019, and December 31, 2018, the fair values and related carrying values of debt, including current maturities, were as follows (the fair value and carrying value amounts are presented without regard to unamortized debt issuance costs of $789,000 and $978,000 as of September 30, 2019 and December 31, 2018, respectively):

(In thousands)	September 30, 2019	December 31, 2018
Fair value	$ 237,766	$ 274,119
Carrying value	232,709	277,058

The following tables present financial assets and liabilities measured on a recurring basis at fair value as of September 30, 2019, and December 31, 2018, and the level within the fair value hierarchy in which the fair value measurements fall:

(In thousands)	September 30, 2019	Level 1	Level 2	Level 3
Mutual fund assets	$ 26,389	$ 26,389	$ —	$ —
Derivative assets:				
Foreign currency contracts	91	—	91	—
Total assets at fair value	$ 26,480	$ 26,389	$ 91	$ —
Derivative liabilities:				
Foreign currency contracts	$ 280	$ —	$ 280	$ —

(In thousands)	December 31, 2018	Level 1	Level 2	Level 3
Mutual fund assets	$ 25,082	$ 25,082	$ —	$ —
Derivative assets:				
Foreign currency contracts	185	—	185	—
Total assets at fair value	$ 25,267	$ 25,082	$ 185	$ —
Derivative liabilities:				
Foreign currency contracts	$ 10	$ —	$ 10	$ —

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 GAAP. The Company uses these contracts to manage its exposure to exchange rate fluctuations on certain Company subsidiary cash, 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 asset and liability balances into the applicable functional currencies. At September 30, 2019, and December 31, 2018, the Company had open forward foreign currency exchange contracts, all with durations of one to three months, to buy or sell foreign currencies with U.S. dollar equivalent amounts of $35,857,965 and $28,870,081, respectively.

The fair values of the derivative instruments held by the Company on September 30, 2019, and December 31, 2018, are disclosed in Note 4. Derivative instrument gains and losses for the three- and nine- month periods ended September 30, 2019 and 2018, were immaterial. For amounts reclassified out of accumulated other comprehensive income (loss) (AOCI) into earnings for the three- and nine- month periods ended September 30, 2019 and 2018, see Note 12.

6. STOCK-BASED COMPENSATION

On September 30, 2019, the Company had stock options, stock awards and stock appreciation rights (SARs) outstanding under its 2011 Incentive Compensation Plan. SARs granted prior to 2015 are cash-settled, and SARs granted after 2014 are stock-settled. Stock options and SARs granted prior to 2017 generally cliff vested after two years. Starting in 2017, stock options and SARs have a three-year graded vesting feature, with one-third of the awards vesting each year. The Company has elected the straight-line method of expense attribution for the stock options and SARs with the graded vesting feature.

Compensation expense recorded for all stock options, stock awards and SARs was as follows:

(In thousands)

Three Months Ended September 30		Nine Months Ended September 30	
2019	2018	2019	2018
$ 2,273	$ 3,335	$ 7,045	$ 6,722

The quarter-over-quarter decrease in stock-based compensation expense was primarily attributable to cash-settled SARs. The cash-settled SARs compensation expense during the third quarter of 2019 was less than a year ago reflecting a smaller increase in the market value of Company stock during the third quarter of 2019 versus the increase during the third quarter of 2018.

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

(In thousands)	September 30, 2019	December 31, 2018
Stock options	$ 2,270	$ 1,655
Stock awards	4,114	3,180
SARs	4,964	3,566

The increases in unrecognized compensation costs for stock options, stock awards and SARs reflected the 2019 grants of:

	Shares
Stock options	72,965
Stock awards (at target)	45,327
SARs	162,624

The unrecognized compensation costs at September 30, 2019, are expected to be recognized over weighted-average periods of 1.9 years, 1.8 years and 1.9 years for stock options, stock awards and SARs, respectively.

7. INVENTORIES

The composition of inventories at September 30, 2019, and December 31, 2018, was as follows:

(In thousands)	September 30, 2019	December 31, 2018 As Adjusted
Finished goods	$ 148,320	$ 163,617
Raw materials	54,983	67,911
Total inventories	$ 203,303	$ 231,528

Effective January 1, 2019, the Company elected to change its method of accounting for U.S. inventories from the LIFO basis to the FIFO basis. Non-U.S. inventories have historically been maintained on the FIFO basis. Prior period financial statements have been adjusted to reflect what results would have been had the Company always used the FIFO method of inventory valuation for U.S. inventories. See Note 2 for additional details.

8. LEASES

The Company adopted ASU No. 2016-02, *Leases (Topic 842)*, on January 1, 2019. This new accounting standard requires a dual approach for lessee accounting whereby a lessee accounts for lease arrangements as either finance leases or operating leases. The lease classification affects the pattern of expense recognition in the income statement. The most significant impact of adopting ASU No. 2016-02, *Leases (Topic 842)* is that a lessee is now required to recognize a “right-of-use” (ROU) asset and corresponding lease liability for operating lease agreements. ROU assets represent a right to use an underlying asset for the lease term and lease liabilities represent an obligation to make lease payments arising from the lease. Operating leases are expensed on a straight-line basis over the life of the lease beginning on the date the Company takes possession of the property.

The Company elected to apply the new lease standard at adoption as allowed under ASU No. 2018-11 and, as a result, the Company did not retrospectively adjust prior periods presented. The Company elected the practical expedient to not separate non-lease components from lease components for all asset classes and the practical expedient which permits a Company to not reassess prior conclusions about lease identification, lease classifications and initial direct costs. The Company did not elect the use-of-hindsight or the practical expedient pertaining to land easements, the latter not being applicable to the Company. In addition, the Company made an accounting policy election to keep leases with an initial term of 12 months or less off the balance sheet. Upon adoption of ASC 842, the Company recognized $42.4 million of ROU assets and related operating lease liabilities on its balance sheet. There was no cumulative catch-up adjustment made to beginning retained earnings.

Significant judgments used by the Company to determine whether a contract is or contains a lease include: (i) determining whether any explicitly or implicitly identified assets have been identified in the contract and (ii) determining whether the Company obtains substantially all of the economic benefits from the use of an underlying asset and directs how and for what purpose the asset is used during the term of the contract.

The Company’s operating leases are primarily comprised of railcars, real estate, storage tanks, autos, trailers and manufacturing/office equipment. Railcars and real estate comprise approximately 50 percent and 37 percent, respectively, of the Company’s consolidated ROU asset balance. With the exception of real estate, typical lease terms range from one to ten years. Real estate lease terms typically range from one to fifty years. The Company’s two principal real estate leases relate to land leases in the Philippines and Singapore. As of September 30, 2019, the Company had additional leases, primarily for leases of real estate and railcars, that have not commenced of approximately $1.9 million. The majority of these leases will commence in the fourth quarter of 2019 with lease terms ranging from one to five years.

Variability associated with the Company’s lease obligations typically relates to: (i) additional charges based on usage (i.e., railcar mileage in excess of a specified amount) and, (ii) periodic increases associated with Consumer Price Index (CPI) changes (i.e., land rental payments). Appropriate CPI at the inception of a lease is reflected in the Company’s lease liability balances whereas variability based on usage is typically excluded from lease liability amounts. Some of the Company’s leases include options to extend the lease term but these are typically not recognized as part of the ROU asset or lease liability at inception unless it is reasonably certain the renewal option will be exercised. Determining whether a renewal option is reasonably certain to be exercised requires judgment based on the existing facts and circumstances as well as expectations about future business needs. Renewal options are typically re-assessed within one year or less prior to lease termination when the Company is able to more accurately forecast future business needs. Some of the Company’s lease contracts include options to terminate leases early but these are typically not considered unless it is reasonably certain the early termination option will be exercised. The Company’s leases do not typically carry any residual value guarantees and typically payment is not considered probable when such guarantees are included in the contract.

Initial implementation of ASU No. 2016-02, *Leases (Topic 842)* did not impact compliance with any of the Company's debt covenants, nor is it expected to in the future. The majority of the Company's debt agreements contain language that excludes the impact of any new GAAP accounting change.

As most of the Company's leases do not provide an implicit borrowing rate, the Company uses its incremental borrowing rate (IBR) based on the information available at the commencement date in determining the present value of lease payments. IBRs were specifically determined for the United States, the Philippines, Singapore and China, typically for five-year increments. The U.S. IBR was used for all other countries as the leases in these countries are not material. The total value of leases that reside in the four countries identified above represents approximately 94 percent of the Company's consolidated ROU asset balance.

(In thousands)	Three months ended September 30, 2019	Nine months ended September 30, 2019
Lease Cost		
Operating lease cost	$ 2,698	$ 8,097
Short-term lease cost	1,249	3,367
Variable lease cost	303	884
Total lease cost	$ 4,250	$ 12,348
Other Information		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flow from operating leases	$ 2,718	$ 8,139
Right-of-use assets obtained in exchange for new operating lease liabilities	1,593	2,482

(In thousands)	
Undiscounted Cash Flows:	
2019 (excluding the nine months ended September 30, 2019)	$ 2,734
2020	9,771
2021	6,899
2022	5,699
2023	4,457
Subsequent to 2023	18,376
Total Undiscounted Cash Flows	$ 47,936
Less: Imputed interest	(9,899)
Present value	$ 38,037
Current operating lease liabilities (1)	8,973
Non-current operating lease liabilities	29,064
Total lease liabilities	$ 38,037

(1) This item is included in Accrued liabilities line on the Company's Condensed Consolidated Balance Sheet.

Weighted-average remaining lease term-operating leases	9 Years
Weighted-average discount rate-operating leases	4.3%

ASC 840 Disclosure

As required in transition, the table below summarizes the Company’s future minimum lease payments at December 31, 2018 under ASC 840.

(In thousands) Year		
2019	$	9,740
2020		8,294
2021		6,027
2022		5,242
2023		4,101
Subsequent to 2023		16,593
Total minimum future rental payments	$	49,997

9. CONTINGENCIES

There are a variety of legal proceedings pending or threatened against the Company that occur in the normal course of the Company’s business, the majority of which relate to environmental matters. Some of these proceedings may result in fines, penalties, judgments or costs being assessed against the Company at some future time. The Company’s operations are subject to extensive local, state and federal regulations, including the U.S. Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA) and the Superfund amendments of 1986 (Superfund) as well as comparable regulations applicable to the Company’s foreign locations. Over the years, the Company has received requests for information related to or has been named by the government authorities as a potentially responsible party (PRP) at a number of sites where cleanup costs have been or may be incurred under CERCLA and similar state statutes. In addition, damages are being claimed against the Company in general liability actions for alleged personal injury or property damage in the case of some disposal and plant sites. The Company believes that it has made adequate provisions for the costs it is likely to incur with respect to these sites.

As of September 30, 2019, the Company estimated a range of possible environmental and legal losses of $23.9 million to $45.6 million. Within the range of possible environmental and legal losses, management has currently concluded that no single amount is more likely to occur than any other amounts in the ranges and, thus, has accrued at the lower end of the ranges; that accrual totaled $23.9 million at September 30, 2019 and $23.4 million at December 31, 2018. Cash expenditures related to legal and environmental matters approximated $2.8 million for the nine months ended September 30, 2019, compared to $1.0 million for the same period in 2018.

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. 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, management believes that the Company has no material liability at these sites and that these matters, individually and in the aggregate, will not have a material effect on the Company’s financial position. 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.

Following are summaries of the material contingencies at September 30, 2019:

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 the U.S. Environmental Protection Agency (USEPA) and the Company for property formerly owned by the Company, and the issuance of an order by the USEPA to the Company for property currently owned by the Company, the Company has completed various remedial investigation feasibility studies, and on September 24, 2014, the USEPA issued its Record of Decision (ROD) for chemically-contaminated soil. The USEPA has not yet issued a ROD for chemically-contaminated groundwater for the Maywood site. Based on the most current information available, the Company believes its recorded liability is reasonable having considered the range of estimated cost of remediation for the Maywood site. The estimate of the cost of remediation for the Maywood site could change as the Company continues to hold discussions with the USEPA, as the design of the remedial action progresses, if a groundwater ROD is issued or if other PRPs are identified. The ultimate amount for which the Company is liable could differ materially from the Company's current recorded liability.

In April 2015, the Company entered into an Administrative Settlement Agreement and Administrative Order on Consent with the USEPA which requires payment of certain costs and performance of certain investigative and design work for chemically-contaminated soil. Based on the Company's review and analysis of this order, no changes to the Company's recorded liability for claims associated with soil remediation of chemical contamination were required.

In addition, under the terms of a settlement agreement reached on November 12, 2004, the U.S. 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 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 PRP in a lawsuit in the U.S. District Court for the District of New Jersey that involved the D'Imperio site located in New Jersey. In 2016, the PRPs were provided with updated remediation cost estimates, which were considered in the Company's determination of its range of estimated possible losses and liability balance. The changes in range of possible losses and liability balance were immaterial. Remediation work is continuing at this site. Based on current information, the Company believes that its recorded liability is reasonable having considered the range of estimated cost of remediation for the D'Imperio site. Depending on the ultimate cost of the remediation at this site, the amount for which the Company is liable could differ materially from the current estimates.

Wilmington Site

The Company is currently contractually obligated to contribute to the response costs associated with the Company's formerly-owned site in 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. The Company has paid the current owner $2.8 million for the Company's portion of environmental response costs through September 30, 2019. 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 materially 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.

Other U.S. Sites

Through the regular environmental monitoring of its plant production sites, the Company discovered levels of chemical contamination that were above thresholds allowed by law at two of its U.S plants. The Company voluntarily reported its results to the applicable state environmental agencies. As a result, the Company is required to perform self-remediation of the affected areas. In the fourth quarter of 2016, the Company recognized a charge for the estimated cost of remediating the sites. Based on current information, the Company believes that its recorded liability for the remediation of the affected areas is appropriate based on estimate of expected costs. However, actual costs could differ materially from current estimates.

10. 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			
(In thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Interest cost	$ 1,640	$ 1,566	$ 4,962	$ 4,645
Expected return on plan assets	(2,365)	(2,320)	(7,087)	(6,962)
Amortization of net actuarial loss	563	987	1,867	2,860
Net periodic benefit cost	$ (162)	$ 233	$ (258)	$ 543

	UNITED KINGDOM			
(In thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Interest cost	$ 134	$ 138	$ 416	$ 430
Expected return on plan assets	(190)	(216)	(589)	(673)
Amortization of net actuarial loss	59	53	184	166
Net periodic benefit cost	$ 3	$ (25)	$ 11	$ (77)

Employer Contributions

U.S. Plans

As a result of pension funding relief provisions included in the Highway and Transportation Funding Act of 2014, the Company is not required to make contributions to the funded U.S. qualified defined benefit plans. Approximately $312,000 is expected to be paid related to the unfunded non-qualified plans in 2019. Of such amount, $256,000 had been paid related to the non-qualified plans as of September 30, 2019.

U.K. Plan

The Company's U.K. subsidiary expects to contribute approximately $476,000 to its defined benefit pension plan in 2019. Of such amount, $408,000 had been contributed to the plan as of September 30, 2019.

Defined Contribution Plans

The Company sponsors retirement savings defined contribution plans that cover eligible U.S. and U.K. employees. The Company's U.S. retirement plans include two qualified plans, one of which is a 401(k) plan and one of which is an employee stock ownership plan, and one non-qualified supplemental executive plan. In the nine months ended September 30, 2019 and 2018, the Company made profit sharing contributions into the qualified retirement plans for U.S. employees and for certain non-U.S. employees. Profit sharing contributions were determined using a formula applied to Company earnings. In 2018, for U.S. employees, who received the majority of profit sharing contributions, profit sharing contributions were made partly to the 401(k) plan and partly to the employee stock ownership plan and in 2019, profit sharing contributions were made to the employee stock ownership plan. Profit sharing contributions are allocated to participant accounts on the basis of participant base earnings.

Defined contribution plan expenses for the Company's qualified contribution plans were as follows:

(In thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Retirement savings contributions	$ 1,777	$ 1,738	$ 5,401	$ 5,201
Profit sharing contributions	567	759	2,413	2,769
Total	$ 2,344	$ 2,497	$ 7,814	$ 7,970

The Company has a rabbi trust to fund the obligations of its non-qualified supplemental executive defined contribution plans (supplemental plans). 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 consolidated 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 September 30, 2019, the balance of the trust assets was $1,670,000, 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).

11. EARNINGS PER SHARE

Below are the computations of basic and diluted earnings per share for the three and nine months ended September 30, 2019 and 2018:

(In thousands, except per share amounts)	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018 As Adjusted	2019	2018 As Adjusted
Computation of Basic Earnings per Share				
Net income attributable to Stepan Company (1)	$ 25,889	$ 21,754	$ 81,091	$ 87,160
Weighted-average number of common shares outstanding	23,025	22,986	23,070	23,036
Basic earnings per share (1)	$ 1.12	$ 0.95	$ 3.52	$ 3.78
Computation of Diluted Earnings per Share				
Net income attributable to Stepan Company (1)	$ 25,889	$ 21,754	$ 81,091	$ 87,160
Weighted-average number of shares outstanding	23,025	22,986	23,070	23,036
Add weighted-average net shares from assumed exercise of options (under treasury stock method) (2)	102	103	95	103
Add weighted-average net shares related to unvested stock awards (under treasury stock method)	1	3	2	2
Add weighted-average net shares from assumed exercise of SARs (under treasury stock method) (2)	135	113	120	111
Add weighted-average contingently issuable net shares related to performance stock awards (under treasury stock method)	37	83	33	72
Weighted-average shares applicable to diluted earnings	23,300	23,288	23,320	23,324
Diluted earnings per share (1)	$ 1.11	$ 0.93	$ 3.48	$ 3.74

(1) The 2018 amounts for the noted line items have been retrospectively changed from the amounts originally reported as a result of the Company's first quarter 2019 change in method of accounting for U.S. inventory valuation from LIFO to FIFO.

(2) Options/SARs to acquire 142,833 shares of Company common stock were excluded from the computations of diluted earnings per share for the nine months ended September 30, 2019. Options/SARs to acquire 65,919 shares of Company common stock were excluded from the computations of diluted earnings per share for the nine months ended September 30, 2018. Inclusion of the instruments would have had antidilutive effects on the computations of the earnings per share.

12. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

In conjunction with the adoption of ASU 2018-02, the Company reclassified $5,325,000 of other comprehensive loss, associated with retirement plans, from accumulated other comprehensive loss to retained earnings effective January 1, 2019. Below is the change in the Company's AOCI balance by component (net of income taxes) for the three and nine months ended September 30, 2019 and 2018:

(In thousands)	Foreign Currency Translation Adjustments	Defined Benefit Pension Plan Adjustments	Cash Flow Hedge Adjustments	Total
Balance at June 30, 2018	$ (96,788)	$ (27,588)	$ 86	$ (124,290)
Other comprehensive income before reclassifications	(2,503)	—	—	(2,503)
Amounts reclassified from AOCI	—	788	(2)	786
Net current-period other comprehensive income	(2,503)	788	(2)	(1,717)
Balance at September 30, 2018	$ (99,291)	$ (26,800)	$ 84	$ (126,007)
Balance at June 30, 2019	$ (100,477)	$ (37,323)	$ 77	$ (137,723)
Other comprehensive income before reclassifications	(19,255)	—	—	(19,255)
Amounts reclassified from AOCI	—	473	(2)	471
Net current-period other comprehensive income	(19,255)	473	(2)	(18,784)
Balance at September 30, 2019	$ (119,732)	$ (36,850)	$ 75	$ (156,507)
Balance at December 31, 2017	$ (70,561)	$ (29,093)	$ 91	$ (99,563)
Other comprehensive income before reclassifications	(28,730)	—	—	(28,730)
Amounts reclassified from AOCI	—	2,293	(7)	2,286
Net current-period other comprehensive income	(28,730)	2,293	(7)	(26,444)
Balance at September 30, 2018	$ (99,291)	$ (26,800)	$ 84	$ (126,007)
Balance at December 31, 2018	$ (108,481)	$ (33,083)	$ 81	$ (141,483)
Other comprehensive income before reclassifications	(11,251)	—	—	(11,251)
Amounts reclassified from AOCI	—	1,558	(6)	1,552
Remeasurement adjustment related to the Tax Act (1)	—	(5,325)	—	(5,325)
Net current-period other comprehensive income	(11,251)	(3,767)	(6)	(15,024)
Balance at September 30, 2019	$ (119,732)	$ (36,850)	$ 75	$ (156,507)

(1) Represents reclassification of the stranded tax effects resulting from the U.S. Tax Cuts and Jobs Act (Tax Act) from accumulated other comprehensive income (loss) to retained earnings in accordance with ASU 2018-02. See Note 19 for more details.

Information regarding the reclassifications out of AOCI for the three and nine month periods ended September 30, 2019 and 2018, is displayed below:

(In thousands)	Amount Reclassified from AOCI (a)				
AOCI Components	Three Months Ended September 30		Nine Months Ended September 30		Affected Line Item in Consolidated Statements of Income
	2019	2018	2019	2018	
Amortization of defined benefit pension actuarial losses	$ (622)	$ (1,040)	$ (2,051)	$ (3,026)	(b)
	149	252	493	733	Tax benefit
	$ (473)	$ (788)	$ (1,558)	$ (2,293)	Net of tax
Gains and losses on cash flow hedges:					
Foreign exchange contracts	2	2	6	7	Cost of sales
	2	2	6	7	Total before tax
	—	—	—	—	Tax benefit
	$ 2	$ 2	$ 6	$ 7	Net of tax
Total reclassifications for the period	$ (471)	$ (786)	$ (1,552)	$ (2,286)	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 10 for additional details).

13. SEGMENT REPORTING

The Company has three reportable segments: Surfactants, Polymers and Specialty Products. Net sales by segment for the three and nine months ended September 30, 2019 and 2018, were as follows:

(In thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Segment Net Sales				
Surfactants	$ 299,719	$ 346,884	$ 962,749	$ 1,062,708
Polymers	135,089	141,646	395,904	404,446
Specialty Products	16,774	19,467	55,102	60,044
Total	$ 451,582	$ 507,997	$ 1,413,755	$ 1,527,198

Segment operating income and reconciliations of segment operating income to income before provision for income taxes for the three and nine months ended September 30, 2019 and 2018, are summarized below:

(In thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018 As Adjusted	2019	2018 As Adjusted
Segment Operating Income				
Surfactants(1)	$ 19,660	$ 28,824	$ 88,913	$ 104,370
Polymers(1)	23,283	19,259	58,148	56,863
Specialty Products	2,261	2,653	11,374	6,543
Segment operating income(1)	45,204	50,736	158,435	167,776
Business restructuring	(459)	(1,715)	(1,642)	(2,346)
Unallocated corporate expenses(2)	(16,779)	(21,876)	(58,024)	(51,616)
Consolidated operating income(1)	27,966	27,145	98,769	113,814
Interest expense, net	(1,402)	(2,797)	(5,021)	(8,620)
Other, net	885	346	4,265	1,990
Income before provision for income taxes(1)	$ 27,449	$ 24,694	$ 98,013	$ 107,184

(1) The 2018 amounts for the noted line items have been retrospectively changed from the amounts originally reported as a result of the Company's first quarter 2019 change in method of accounting for U.S. inventory valuation from LIFO to FIFO.

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

14. REVENUE FROM CONTRACTS WITH CUSTOMERS

In the majority of instances the Company deems a contract with a customer to exist when a purchase order is received from a customer for a specified quantity of product or products and the Company acknowledges receipt of such purchase order. In some instances the Company has entered into manufacturing supply agreements with customers but these agreements typically do not bind a customer to any purchase volume requirements and thus an obligation is not created until the customer submits a purchase order to the Company. The Company's contracts typically have a single performance obligation that is satisfied at the time a product is shipped and control passes to the customer. For a small portion of the business, performance obligations are deemed satisfied when product is delivered to a customer location.

As of September 30, 2019, the Company did not have any contract assets or contract liabilities. A contract liability would typically arise when an advance or deposit is received from a customer before the Company recognizes revenue. In practice, this is extremely rare as it would require a customer to make a payment prior to a performance obligation being satisfied. If such a situation did arise the Company would maintain a deferred revenue liability until the time a performance obligation has been satisfied. The Company did not recognize any revenue in the current period from any pre-existing contract liability balance.

The tables below provide a geographic disaggregation of net sales for the three and nine months ended September 30, 2019 and 2018. The Company's business segmentation by geographic region most effectively captures the nature and economic characteristics of the Company's revenue streams.

(In thousands)	For the Three Months Ended September 30, 2019			
	Surfactants	Polymers	Specialty Products	Total
Geographic Market				
North America	$ 178,799	$ 84,397	$ 14,035	$ 277,231
Europe	57,190	39,852	2,739	99,781
Latin America	51,940	792	—	52,732
Asia	11,790	10,048	—	21,838
Total	$ 299,719	$ 135,089	$ 16,774	$ 451,582

(In thousands)	For the Three Months Ended September 30, 2018			
	Surfactants	Polymers	Specialty Products	Total
Geographic Market				
North America	$ 205,032	$ 87,720	$ 16,877	$ 309,629
Europe	68,120	45,780	2,590	116,490
Latin America	58,560	978	—	59,538
Asia	15,172	7,168	—	22,340
Total	$ 346,884	$ 141,646	$ 19,467	$ 507,997

(In thousands)	For the Nine Months Ended September 30, 2019			
	Surfactants	Polymers	Specialty Products	Total
Geographic Market				
North America	$ 584,816	$ 242,154	$ 46,127	$ 873,097
Europe	183,028	126,042	8,975	318,045
Latin America	156,709	2,439	—	159,148
Asia	38,196	25,269	—	63,465
Total	$ 962,749	$ 395,904	$ 55,102	$ 1,413,755

(In thousands)	For the Nine Months Ended September 30, 2018			
	Surfactants	Polymers	Specialty Products	Total
Geographic Market				
North America	$ 643,466	$ 248,160	$ 50,365	$ 941,991
Europe	212,556	132,592	9,679	354,827
Latin America	156,827	2,438	—	159,265
Asia	49,859	21,256	—	71,115
Total	$ 1,062,708	$ 404,446	$ 60,044	$ 1,527,198

15. DEBT

At September 30, 2019, and December 31, 2018, debt comprised the following:

(In thousands)	Maturity Dates	September 30, 2019	December 31, 2018
Unsecured private placement notes			
3.95% (net of unamortized debt issuance cost of $327 and $360 for 2019 and 2018, respectively)	2021-2027	$ 99,673	$ 99,640
3.86% (net of unamortized debt issuance cost of $305 and $347 for 2019 and 2018, respectively)	2019-2025	85,409	99,653
4.86% (net of unamortized debt issuance cost of $157 and $186 for 2019 and 2018, respectively)	2019-2023	46,271	46,243
5.88% (net of unamortized debt issuance cost of $0 and $85 for 2019 and 2018, respectively)	2019-2022	—	22,772
Debt of foreign subsidiaries			
Unsecured bank debt, foreign currency	2019	567	7,772
Total debt		$ 231,920	$ 276,080
Less current maturities		24,137	37,058
Long-term debt		$ 207,783	$ 239,022

The Company has a committed $350,000,000 multi-currency revolving credit agreement that expires on January 30, 2023. 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 September 30, 2019, the Company had outstanding letters of credit totaling $5,009,000 and no outstanding debt under this agreement. There was $344,991,000 available under the revolving credit agreement as of September 30, 2019.

The Company's loan agreements contain provisions which, among others, require maintenance of certain financial ratios and place limitations on additional debt, investments and payment of dividends. Based on the loan agreement provisions that place limitations on dividend payments, unrestricted retained earnings (i.e., retained earnings available for dividend distribution) were $267,903,000 and $214,101,000 at September 30, 2019 and December 31, 2018, respectively.

On June 12, 2019, the Company prepaid the $17,100,000 outstanding principal balance of its 5.88 percent Series 2010-A Senior Notes due June 1, 2022 (Notes) and the related make-whole amount of $1,173,000. The make-whole amount reflected the net present value of the remaining scheduled interest payments on the Notes, calculated in accordance with the applicable note purchase agreement. The prepayment was made with cash on hand. The Company also expensed remaining unamortized debt issuance costs of $74,000.

16. OTHER, NET

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

(In thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Foreign exchange gain (loss)	$ 374	$ (274)	$ 333	$ 895
Investment income	106	91	309	320
Realized and unrealized gain (loss) on investments	(324)	737	2,806	1,241
Net periodic pension benefit cost	159	(208)	247	(466)
Gain on sale of asset	570	—	570	—
Other, net	$ 885	$ 346	$ 4,265	$ 1,990

17. BUSINESS RESTRUCTURING

In the first quarter of 2019, the Company approved a plan to restructure its Specialty Products office in the Netherlands and eliminate five positions from the site's supply chain, quality control and research and development areas. This restructuring was designed to better align the number of personnel with current business requirements and reduce costs at the site. As a result, severance and early lease termination expenses of $396,000 and $122,000, respectively, were recognized during the nine months ended September 30, 2019.

During the third quarter of 2018, the Company approved a plan to shut down Surfactant operations at its German plant site. As of September 30, 2019, an aggregate of $1,968,000 shut down related expense had been recognized at the site. This aggregate expense is comprised of $1,404,000 of asset and spare part write downs recognized in 2018 and $564,000 of decommissioning costs recognized in the nine months ended September 30, 2019. Decommissioning costs associated with the shutdown are expected to continue throughout the remainder of 2019.

In the fourth quarter of 2017, the Company approved a plan to restructure a portion of its Fieldsboro, New Jersey production facility. This facility is a part of the Surfactant reportable segment. As a result, the Company recorded $915,000 of restructuring expense which reflected termination benefits for select plant employees. In the first quarter of 2019, the Company recognized a $251,000 favorable adjustment to the amount of termination benefits initially recorded.

In May 2016, the Company announced plans to shut down its Longford Mills, Ontario, Canada (Longford Mills) manufacturing facility, a part of the Surfactant reportable segment, by December 31, 2016. The shutdown plan was implemented to improve the Company's asset utilization in North America and to reduce the Company's fixed cost base. Manufacturing operations at the Longford Mills plant ceased by the end of 2016, and production of goods manufactured at the facility was transferred to other Company North American production sites. Decommissioning of the assets is expected to continue throughout 2019. In the third quarter of 2019, the Company recognized $290,000 of decommissioning expenses. As of September 30, 2019, $6,885,000 of aggregate restructuring expense had been recognized, reflecting $1,644,000 of termination benefits for approximately 30 employees and $5,241,000 for other expenses, principally site decommissioning costs.

18. ACQUISITION

2018 Acquisition

On March 26, 2018, the Company through a subsidiary in Mexico closed on a previously announced agreement with BASF Mexicana, S.A.DE C.V. (BASF) to acquire their surfactants production facility in Ecatepec, Mexico and a portion of their associated surfactants business. The facility is located close to Mexico City and has over 50,000 metric tons of capacity, 124,000 square feet of warehouse space, a large laboratory and office space. The acquired assets and business are included in the Company's Surfactants segment. The purchase price of the acquisition was $22,852,000 and was paid with cash on hand. The primary assets acquired were land, buildings, machinery and equipment and inventory. The acquisition was accounted for as a business combination, and, accordingly, the assets acquired were measured and recorded at their estimated fair values. No intangible assets were identified as part of the acquisition. The following table summarizes the assets acquired as a result of the acquisition:

(In thousands)		
Assets:		
Property, plant and equipment	$	14,464
Inventory		5,687
Value-added tax receivables		2,701
Total assets acquired	$	22,852

The acquired business had minimal impact on the Company's 2018 financial results.

19. RECENT ACCOUNTING PRONOUNCEMENTS

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-2, *Leases (Topic 842)*. This guidance requires a dual approach for lessee accounting whereby a lessee will account for lease arrangements with terms greater than 12 months as either finance leases or operating leases. Both finance leases and operating leases are recognized on the lessee's balance sheet as right-of-use assets and corresponding lease liabilities, with differing methodologies for income statement recognition. In addition, the ASU requires expanded qualitative and quantitative disclosures about the Company's lease arrangements. This guidance is effective for public business entities for fiscal years, and interim periods within those years, beginning after December 15, 2018. The most significant impact of ASU No. 2016-2, *Leases (Topic 842)* is that a lessee is required to recognize a "right-of-use" asset and corresponding lease liability for operating leases agreements. The Company adopted the new lease standard on January 1, 2019 by recognizing lease assets and the corresponding lease liabilities. The adoption of these guidelines did not have an impact on retained earnings, the Company's results of operations or cash flows, but it did have a material impact on specific balance sheet line items. See Note 8 – *Leases* for more details.

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which permits a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Act. Consequently, the update reclassifies the stranded tax effects resulting from the Tax Act and should improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Act, the underlying guidance that requires that the effects of the change in tax laws or rates be included in income from continuing operations is not affected. The amendments in this update also require certain disclosures about stranded tax effects. This update is effective for public business entities for fiscal years, and interim periods within those years, beginning after December 15, 2018. The Company adopted this guidance and recorded a $5,325,000 adjustment to the opening balance of retained earnings with the corresponding offset to AOCI. See Note 12 – *Accumulated Other Comprehensive Income (Loss)* for more details.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* which amends the guidance on the measurement of the impairment of financial instruments. The new pronouncement replaces the existing model of measuring credit losses with an expected credit loss model referred to as "the Current Expected Credit Loss (CECL) model." The new model is based on expected losses that should be measured based not only on historical experience but on the combination of historical data, current conditions and reasonable forecasts. Under this methodology, an entity recognizes as an allowance its estimate of lifetime expected credit losses and is required to apply the new credit loss model to most financial instruments held at amortized cost including trade receivables. The amendments in the update are effective for fiscal years, and interim periods within fiscal years, beginning after December 15, 2019. It is not expected that the adoption of the guidance in ASU No. 2016-13 will have a material effect on the Company's financial position, results of operations or cash flows.

In January 2017, the FASB issued ASU No. 2017-4, *Intangibles – Goodwill and Other (Topic 350)*: *Simplifying the Test for Goodwill Impairment*, which eliminates Step 2 from the goodwill impairment test. When an indication of impairment was identified after performing the first step of the goodwill impairment test, Step 2 required that an entity determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) using the same procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Under the amendments in ASU No. 2017-4, an entity would perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying value. An entity would recognize an impairment charge for the amount by which the carrying value exceeds the reporting unit's fair value. In addition, an entity must consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The Company is required to adopt the amendments in ASU No. 2017-4 for its annual, or any interim, goodwill impairment tests in fiscal years beginning after December 15, 2019. It is not expected that the adoption of the guidance in ASU No. 2017-4 will have a material effect on the Company's financial position, results of operations or cash flows.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820) Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*. This update modifies some disclosure requirements related to fair value measurements used for different levels of instruments in fair value hierarchy (Level 1, Level 2 and Level 3). The amendments in the update are effective for fiscal years, and interim periods within fiscal years, beginning after December 15, 2019. The adoption of this update is not expected to have an effect on the Company's financial position, results of operations and cash flows but may impact the disclosures made for fair value measurements used by the Company.

In August 2018, the FASB issued ASU No. 2018-14, *Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20)*. This update removes some disclosures that are no longer considered cost beneficial and adds some disclosures about defined benefit plans that have been identified as relevant. The amendments in this update are effective for fiscal years ending after December 15, 2020. The adoption of this update is not expected to have an effect on the Company's financial position, results of operations and cash flows but will impact the disclosures made for the Company's defined benefit retirement plans.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles-Goodwill and Other-Internal-Use software (Subtopic 350-40) Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*. This update aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This update requires the entity to determine which implementation costs to capitalize as an asset related to the service contact and which costs to expense over the term of the hosting contract. The amendments in this update are effective for fiscal years beginning after December 15, 2019. The adoption of this update is not expected to have an effect on the Company's financial position, results of operations and 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 periods included in the accompanying condensed consolidated financial statements.

Certain statements in this Quarterly Report on Form 10-Q, other than purely historical information, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). These statements include statements about Stepan Company's and its subsidiaries' (the Company) plans, objectives, strategies, financial performance and outlook, trends, the amount and timing of future cash distributions, prospects or future events and involve known and unknown risks that are difficult to predict. As a result, the Company's actual financial results, performance, achievements or prospects may differ materially from those expressed or implied by these forward-looking statements. In some cases, forward-looking statements can be identified by the use of words such as "may," "could," "expect," "intend," "plan," "seek," "anticipate," "believe," "estimate," "guidance," "predict," "potential," "continue," "likely," "will," "would," "should," "illustrative" and variations of these terms and similar expressions, or the negative of these terms or similar expressions. Such forward-looking statements are necessarily based upon estimates and assumptions that, while considered reasonable by the Company and its management based on their knowledge and understanding of the business and industry, are inherently uncertain. These statements are not guarantees of future performance, and stockholders should not place undue reliance on forward-looking statements. There are a number of risks, uncertainties and other important factors, many of which are beyond the Company's control, that could cause the Company's actual results to differ materially from the forward-looking statements contained in this Quarterly Report on Form 10-Q.

Such risks, uncertainties and other important factors, include, among others, the risks, uncertainties and factors set forth under "Part I-Item IA. Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2018 inclusive of: (a) the risks and uncertainties related to accidents, unplanned production shutdowns or disruptions in any of the Company's manufacturing facilities; (b) global competition and the Company's ability to successfully compete; (c) volatility of raw material, natural gas and electricity costs as well as any disruption in their supply; (d) disruptions in transportation or significant changes in transportation costs; (e) reduced demand for Company products due to customer product reformulations or new technologies; (f) the Company's ability to make acquisitions of suitable candidates and successfully integrate acquisitions; (g) the Company's ability to keep and protect its intellectual property rights; (h) international business risks, including fluctuations in currency exchange rates, legal restrictions and taxes; (i) potentially adverse tax consequences due to the international scope of the Company's operations; (j) compliance with anti-corruption, environmental, health and safety and product registration laws; (k) the Company's ability to operate within the limitations of its debt covenants; (l) downgrades to the Company's credit ratings or disruptions to the Company's ability to access well-functioning capital markets; (m) downturns in certain industries and general economic downturns; (n) conflicts, military actions, terrorist attacks and general instability, particularly in certain energy-producing nations, along with increased security regulations; (o) cost overruns, delays and miscalculations in capacity needs with respect to the Company's expansion or other capital projects; (p) interruption of, damage to or compromise of the Company's IT systems and failure to maintain the integrity of customer, colleague or Company data; (q) unfavorable resolution of litigation against the Company; (r) and the Company's ability to retain its executive management and other key personnel.

These factors are not necessarily all of the important factors that could cause the Company's actual financial results, performance, achievements or prospects to differ materially from those expressed in or implied by any of its forward-looking statements. Other unknown or unpredictable factors also could harm the Company's results. All forward-looking statements attributable to the Company or persons acting on the Company's behalf are expressly qualified in their entirety by the cautionary statements set forth above. Forward-looking statements speak only as of the date they are made, and the Company does not undertake or assume any obligation to update publicly any of these forward-looking statements to reflect actual results, new information or future events, changes in assumptions or changes in other factors affecting forward-looking statements, except to the extent required by applicable laws. If the Company updates one or more forward-looking statements, no inference should be drawn that the Company will make additional updates with respect to those or other forward-looking statements. The "Company," "we," "our" or "us" means Stepan Company and one or more of its subsidiaries only.

Overview

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

- Surfactants – Surfactants, which accounted for 68 percent of Company consolidated net sales for the first nine months of 2019, are principal ingredients in consumer and industrial cleaning products such as detergents for washing clothes, dishes, carpets, floors and walls, as well as shampoos and body washes. Other applications include fabric softeners, germicidal quaternary compounds, lubricating ingredients, emulsifiers for spreading agricultural products and industrial applications such as latex systems, plastics and composites. Surfactants are manufactured at five sites in the United States, two European sites (United Kingdom and France), five Latin American sites (one site in Colombia and two sites in each of Brazil and Mexico) and two Asian sites (Philippines and Singapore). Recent significant events include:

- During January 2019 the Company's plant in Ecatepec, Mexico experienced a sulfonation equipment failure that contributed to an operating loss at the site for the first nine months of 2019. The Ecatepec facility is now fully operational and the Company's insurance provider has acknowledged this incident is a covered event. The Company is pursuing insurance recovery. This plant, and a portion of its related surfactant business, was acquired from BASF in March 2018 (see Note 18, *Acquisition*, for additional details).

- During the fourth quarter of 2018, the Company shut down Surfactant operations at its plant site in Germany. The Company ceased Surfactant production at this site to further reduce its fixed cost base, refocus Surfactant resources on higher margin end markets and allow for select assets to be repurposed to support future polyol growth. Decommissioning costs associated with the shutdown are expected to be incurred throughout 2019 (see Note 17, *Business Restructuring*, for additional details).

- In 2016, the Company shut down its production facility in Canada, moving the production of goods previously manufactured in Canada to other Company North American production sites. Manufacturing operations at the facility ceased in the fourth quarter of 2016, but decommissioning activities occurred in 2017 and 2018 and will continue throughout 2019 (see Note 17, *Business Restructuring*, for additional details).

• Polymers – Polymers, which accounted for 28 percent of consolidated net sales for the first nine months of 2019, include polyurethane polyols, polyester resins and phthalic anhydride. Polyurethane polyols are used in the manufacture of rigid foam for thermal insulation in the construction industry and are also a base raw material for coatings, adhesives, sealants and elastomers (collectively, CASE). Powdered polyester resins are used in coating applications. CASE and powdered polyester resins are collectively referred to as specialty polyols. Phthalic anhydride is used in unsaturated polyester resins, alkyd resins and plasticizers for applications in construction materials and components of automotive, boating and other consumer products. In addition, the Company uses phthalic anhydride internally in the production of polyols. In the United States, polyurethane polyols and phthalic anhydride are manufactured at the Company's Millsdale, Illinois, site and specialty polyols are manufactured at the Company's Columbus, Georgia, site. In Europe, polyurethane polyols are manufactured by the Company's subsidiary in Germany, and specialty polyols are manufactured by the Company's Poland subsidiary. In China, polyurethane polyols and specialty polyols are manufactured at the Company's Nanjing, China, plant.

• Specialty Products – Specialty Products, which accounted for four percent of consolidated net sales for the first nine months of 2019, include flavors, emulsifiers and solubilizers used in food, flavoring, nutritional supplement and pharmaceutical applications. Specialty products are primarily manufactured at the Company's Maywood, New Jersey, site and, in some instances, at outside contractors.

- During the first quarter of 2019 the Company approved a plan to restructure its Specialty Product office in the Netherlands and eliminate positions from the site's supply chain, quality control and research and development areas. This restructuring was designed to better align the number of personnel with current business requirements and reduce costs at the site (see Note 17, *Business Restructuring*, for additional details).

Change in Accounting Principle

During the first quarter of 2019 the Company elected to change its method of accounting for U.S. inventory valuation from the LIFO basis to the FIFO basis. Non-U.S. inventories have historically been maintained on the FIFO basis. The Company believes that this change to the FIFO method of inventory valuation is preferable as it provides a better matching of costs with the physical flow of goods, more accurately reflects the current market value of inventory presented on the Company's consolidated balance sheet, standardizes the Company's inventory valuation methodology and improves comparability with the Company's industry peers. The Company has retrospectively applied this change to its prior year financial statement comparables. See Note 2, *Change in Method of Accounting for Inventory Valuation*, for additional details.

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 tables:

	Income (Expense) For the Three Months Ended September 30		
(In millions)	2019	2018	Change
Deferred Compensation (Operating expenses)	$ (1.6)	$ (4.2)	$ 2.6 (1)
Realized/Unrealized Gains on Investments (Other, net)	(0.3)	0.7	$ (1.0)
Investment Income (Other, net)	0.1	0.1	$ -
Pretax Income Effect	$ (1.8)	$ (3.4)	$ 1.6

	Income (Expense) For the Nine Months Ended September 30		
(In millions)	2019	2018	Change
Deferred Compensation (Administrative expense)	$ (11.5)	$ (5.0)	$ (6.5) (1)
Realized/Unrealized Gains on Investments (Other, net)	2.7	1.2	1.5
Investment Income (Other, net)	0.3	0.3	-
Pretax Income Effect	$ (8.5)	$ (3.5)	$ (5.0)

(1) See the *Segment Results-Corporate Expenses* sections of this MD&A for details regarding the period-over-period 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 statement line items for the three and nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30			
(In millions)	2019	2018(1)	Increase (Decrease)	(Decrease) Due to Foreign Translation
Net Sales	$ 451.6	$ 508.0	$ (56.4)	$ (7.2)
Gross Profit	77.4	83.6	(6.2)	(1.0)
Operating Income	28.0	27.1	0.9	(0.5)
Pretax Income	27.4	24.7	2.7	(0.5)

(In millions)	Nine Months Ended September 30 2019	2018(1)	(Decrease)	(Decrease) Due to Foreign Translation
Net Sales	$ 1,413.8	$ 1,527.2	$ (113.4)	$ (33.2)
Gross Profit	255.0	264.8	(9.8)	(4.6)
Operating Income	98.8	113.8	(15.0)	(2.5)
Pretax Income	98.0	107.2	(9.2)	(2.4)

(1) The 2018 gross profit, operating income and pretax income line items have been retrospectively changed from the amounts originally reported as a result of the Company's first quarter 2019 change in method of accounting for U.S. inventory valuation from LIFO to FIFO.

RESULTS OF OPERATIONS

Three Months Ended September 30, 2019 and 2018

Summary

Net income attributable to the Company for the third quarter of 2019 increased 19 percent to $25.9 million, or $1.11 per diluted share, from $21.8 million, or $0.93 per diluted share, for the third quarter of 2018. Adjusted net income increased six percent to $27.9 million, or $1.20 per diluted share, from $26.4 million, or $1.13 per diluted share, in 2018 (see the "Reconciliation of Non-GAAP Adjusted Net Income and Diluted Earnings per Share" section of this MD&A for reconciliations between reported net income attributable to the Company and related earnings per diluted share and non-GAAP adjusted net income and related earnings per diluted share). 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 third quarter of 2019 compared to the third quarter of 2018 follows the summary.

Consolidated net sales decreased $56.4 million, or 11 percent, between quarters. Consolidated sales volume declined six percent, which had a $29.1 million unfavorable impact on the quarter-over-quarter change in net sales. Sales volume in the Surfactant and Specialty Product segments decreased eight percent and two percent, respectively, while sales volume in the Polymer segment increased three percent. Approximately 27 percent of the decline in Surfactant volume was due to the Company's exit from its sulfonation business in Germany during the fourth quarter of 2018. Lower average selling prices negatively impacted the quarter-over-quarter change in net sales by $20.1 million. The decrease in average selling prices was primarily due to the pass through of lower raw material costs. Foreign currency translation negatively impacted the quarter-over-quarter change in net sales by $7.2 million due to a stronger U.S. dollar against the majority of currencies where the Company has foreign operations.

Operating income for the third quarter of 2019 increased $0.8 million, or three percent, versus operating income for the third quarter of 2018. A $6.2 million decline in gross profit was more than offset by lower corporate, deferred compensation and business restructuring expenses. These expenses decreased by $2.5 million, $2.6 million and $1.3 million quarter-over-quarter, respectively. From a segment perspective, Polymer operating income improved by $4.0 million, whereas Surfactant and Specialty Product operating income declined by $9.2 and $0.4 million, respectively. Foreign currency translation had a $0.5 million unfavorable effect on quarter-over-quarter consolidated operating income.

Operating expenses (including deferred compensation and business restructuring expense) decreased $7.0 million, or 12 percent, between quarters. Changes in the individual income statement line items that comprise the Company's operating expenses were as follows:

- Selling expenses decreased $0.4 million, or three percent, quarter-over-quarter.
- Administrative expenses decreased $2.2 million, or 10 percent, quarter-over-quarter. This decrease was primarily due to non-recurring employee separation costs ($2.1 million) incurred during the third quarter of 2018.
- Research, development and technical service (R&D) expenses decreased $0.5 million, or four percent, quarter-over-quarter, primarily due to lower incentive-based compensation expense.
- Deferred compensation expense declined $2.6 million, quarter-over-quarter, primarily due to a $5.15 per share increase in the market price of Company common stock in the third quarter of 2019 compared to a $9.00 per share increase in the third quarter of 2018. See the *Overview* and *Segment Results-Corporate Expenses* sections of this MD&A for further details.

- Business restructuring charges totaled $0.5 million in the third quarter of 2019 versus $1.7 million in the third quarter of 2018. The 2019 restructuring charges were comprised of ongoing decommissioning costs associated with the Company's manufacturing facility in Canada ($0.3 million) and decommissioning expenses associated with the Company's 2018 sulfonation shutdown in Germany ($0.2 million). The 2018 restructuring charges were comprised of asset and spare part write-downs related to the Company ceasing Surfactant operations in Germany ($1.4 million) and Canadian decommissioning costs ($0.3 million). See Note 17, *Business Restructuring*, for additional details.

Net interest expense for the third quarter of 2019 decreased $1.4 million versus the prior year quarter. This decrease was primarily due to higher U.S. interest income earned on U.S. cash balances, resulting from the repatriation of $100.0 million to the United States in 2018, and lower interest expense resulting from scheduled debt repayments and the Company's voluntary prepayment of its 5.88% Senior Notes in the second quarter of 2019.

Other, net was $0.9 million of income for the third quarter of 2019 compared to $0.3 million of income for the same period of 2018. The Company incurred $0.2 million of investment losses (including realized and unrealized gains and losses) for the Company's deferred compensation and supplemental defined contribution mutual fund assets in the third quarter of 2019 compared to $0.8 million of income in last year's third quarter. The Company also reported foreign exchange gains of $0.4 million in the third quarter of 2019 versus $0.3 million of foreign exchange losses in the third quarter of 2018. Net periodic pension costs were $0.4 million lower in the third quarter of 2019 versus the prior year quarter. In addition, the Company reported a $0.6 million gain on the sale of an asset in the third quarter of 2019.

The Company's effective tax rate was 5.7 percent for the third quarter of 2019 compared to 11.9 percent for the third quarter of 2018. The quarter-over-quarter decrease was primarily attributable to: (i) current quarter incremental U.S. tax credits identified as part of a research and development tax credit study, and (ii) the non-recurrence of unfavorable tax consequences resulting from the repatriation of $100.0 million to the United States in 2018. These items were substantially offset by other non-recurring favorable tax benefits recognized in the third quarter of 2018.

Segment Results

(Dollars in thousands) Net Sales	For the Three Months Ended September 30, 2019	September 30, 2018	(Decrease)	Percent Change
Surfactants	$ 299,719	$ 346,884	$ (47,165)	-14
Polymers	135,089	141,646	(6,557)	-5
Specialty Products	16,774	19,467	(2,693)	-14
Total Net Sales	$ 451,582	$ 507,997	$ (56,415)	-11

(Dollars in thousands) Operating Income	For the Three Months Ended September 30, 2019	September 30, 2018(1)	Increase (Decrease)	Percent Change
Surfactants	$ 19,660	$ 28,824	$ (9,164)	-32
Polymers	23,283	19,259	4,024	21
Specialty Products	2,261	2,653	(392)	-15
Segment Operating Income	$ 45,204	$ 50,736	$ (5,532)	-11
Corporate Expenses, Excluding Deferred Compensation and Restructuring	15,169	17,654	(2,485)	-14
Deferred Compensation Expense	1,610	4,222	(2,612)	-62
Business Restructuring	459	1,715	(1,256)	-73
Total Operating Income	$ 27,966	$ 27,145	$ 821	3

(1) The 2018 segment and total operating income line items have been retrospectively changed from the amounts originally reported as a result of the Company's first quarter 2019 change in method of accounting for U.S. inventory valuation from LIFO to FIFO.

Surfactants

Surfactant net sales for the third quarter of 2019 decreased $47.2 million, or 14 percent, versus net sales for the third quarter of 2018. The unfavorable impact of lower sales volume, lower average selling prices and foreign currency translation negatively impacted the quarter-over-quarter change in net sales by $29.2 million, $13.2 million and $4.8 million, respectively. A quarter-over-quarter comparison of net sales by region follows:

(Dollars in thousands)	For the Three Months Ended			
Net Sales	September 30, 2019	September 30, 2018	(Decrease)	Percent Change
North America	$ 178,799	$ 205,032	$ (26,233)	-13
Europe	57,190	68,120	(10,930)	-16
Latin America	51,940	58,560	(6,620)	-11
Asia	11,790	15,172	(3,382)	-22
Total Surfactants Segment	$ 299,719	$ 346,884	$ (47,165)	-14

Net sales for North American operations decreased $26.3 million, or 13 percent, between quarters. An eight percent decline in sales volume and lower average selling prices negatively impacted the quarter-over-quarter change in net sales by $16.9 million and $9.3 million, respectively. The decline in sales volume was mostly due to lower commodity demand in the personal care and laundry and cleaning end markets and lower demand in the functional products end market. The lower functional products demand reflects wet weather in the U.S. farm belt that negatively impacted the Company's agricultural business. Selling prices decreased five percent mostly due to the pass through of lower raw material costs to customers. Foreign currency translation negatively impacted the quarter-over-quarter change in net sales by $0.1 million.

Net sales for European operations decreased $10.9 million, or 16 percent, between quarters. A 14 percent decline in sales volume and unfavorable foreign currency translation negatively impacted the quarter-over-quarter change in net sales by $9.4 million and $2.8 million, respectively. The lower sales volume was principally due to the Company ceasing Surfactant production at its German plant site during the fourth quarter of 2018. A stronger U.S. dollar relative to the European euro and British pound sterling led to the foreign currency translation effect. Slightly higher average selling prices favorably impacted the change in net sales by $1.3 million.

Net sales for Latin American operations decreased $6.6 million, or 11 percent, primarily due to lower average selling prices, the negative impact of foreign currency translation and a two percent decline in sales volume. These items accounted for $3.2 million, $2.2 million and $1.2 million, respectively, of the quarter-over-quarter change in net sales. The lower average selling prices reflect the pass through of lower raw material costs to customers and slightly less favorable product mix. The quarter-over-quarter strengthening of the U.S. dollar against the Columbian and Mexican pesos and the Brazilian real generated the unfavorable foreign currency effect. The lower sales volume mostly reflects the residual impact of a sulfonation equipment failure at the Company's Ecatepec, Mexico site during the first quarter of 2019 partially offset by higher agricultural demand in the region.

Net sales for Asian operations declined $3.4 million, or 22 percent, primarily due to lower sales volume and lower average selling prices. These items unfavorably impacted the quarter-over-quarter change in net sales by $2.3 million and $1.4 million, respectively. Sales volume declined 15 percent mostly due to lower demand in the commodity laundry and cleaning end markets. Foreign currency translation favorably impacted the quarter-over-quarter change in net sales by $0.3 million.

Surfactant operating income for the third quarter of 2019 decreased $9.2 million, or 32 percent, versus operating income for the third quarter of 2018. Gross profit declined $9.5 million and operating expenses were down slightly quarter-over-quarter. Quarter-over-quarter comparisons of gross profit by region and total segment operating expenses and operating income follow:

(Dollars in thousands)	For the Three Months Ended			
Gross Profit and Operating Income	September 30, 2019	September 30, 2018(1)	Increase (Decrease)	Percent Change
North America	$ 25,946	$ 35,882	$ (9,936)	-28
Europe	8,432	7,575	857	11
Latin America	4,907	7,345	(2,438)	-33
Asia	4,665	2,613	2,052	79
Surfactants Segment Gross Profit	$ 43,950	$ 53,415	$ (9,465)	-18
Operating Expenses	24,290	24,591	(301)	-1
Surfactants Segment Operating Income	$ 19,660	$ 28,824	$ (9,164)	-32

(1) The 2018 North America gross profit and the total surfactants segment operating income line items have been retrospectively changed from the amounts originally reported as a result of the Company's first quarter 2019 change in method of accounting for U.S. inventory valuation from LIFO to FIFO.

Gross profit for North American operations decreased 28 percent, or $9.9 million, quarter-over-quarter primarily due to lower unit margins and an eight percent decline in sales volume. These two items negatively impacted the quarter-over-quarter change in gross profit by $6.9 million and $3.0 million, respectively. The lower unit margins were primarily attributable to higher inventory costs associated with the Company's internal Asia-U.S. supply chain. Most of the sales volume decrease was attributable to lower demand for commodity products sold into the personal care and laundry and cleaning end markets and lower demand in the functional products end market.

Gross profit for European operations increased 11 percent, or $0.9 million, between quarters primarily due to lower overhead costs and higher unit margins resulting from the Company ceasing Surfactant production at its German plant site during the fourth quarter of 2018. Higher unit margins favorably impacted gross profit quarter over quarter by $2.3 million. A 14 percent decline in sales volume, mostly attributable to the exit from sulfonation in Germany, and the unfavorable impact of foreign currency translation negatively impacted the current year quarter by $1.0 million and $0.4 million, respectively.

Gross profit for Latin American operations decreased $2.4 million, or 33 percent, quarter-over-quarter. Lower unit margins, the unfavorable impact of foreign currency translation and a two percent decline in sales volume negatively impacted gross profit quarter-over-quarter by $2.1 million, $0.2 million and $0.1 million, respectively. The lower unit margins primarily reflect competitive market pressures, the non-recurrence of a 2018 favorable $0.6 million equipment reimbursement in Brazil and the residual impact of the equipment failure in Ecatepec, Mexico.

Gross profit for Asia operations increased 79 percent, or $2.1 million, between quarters largely due to higher unit margins that were partially offset by lower sales volume. The higher unit margins reflect a more favorable product mix and higher margins on products supplied to the United States. Sales volume decreased 15 percent primarily due to lower demand in the commodity laundry and cleaning end markets.

Operating expenses for the Surfactants segment decreased $0.3 million, or one percent, quarter-over-quarter.

Polymers

Polymers net sales for the third quarter of 2019 decreased $6.6 million, or five percent, versus net sales for the same period of 2018. A three percent increase in sales volume positively impacted the quarter-over-quarter change in net sales by $4.5 million. The unfavorable impact of lower average selling prices and foreign currency translation negatively impacted the quarter-over-quarter change in net sales by $8.8 million and $2.3 million, respectively. A quarter-over-quarter comparison of net sales by region follows:

	For the Three Months Ended			
(Dollars in thousands)	September 30	September 30	Increase	Percent
Net Sales	2019	2018	(decrease)	change
North America	$ 84,397	$ 87,720	$ (3,323)	-4
Europe	39,852	45,780	(5,928)	-13
Asia and Other	10,840	8,146	2,694	33
Total Polymers Segment	$ 135,089	$ 141,646	$ (6,557)	-5

Net sales for North American operations declined $3.3 million, or four percent, primarily due to lower average selling prices partially offset by slightly favorable volume growth. The lower selling prices negatively impacted net sales quarter-over-quarter by $3.7 million while sales volume growth positively impacted the quarter by $0.4 million. The lower selling prices are largely a reflection of lower raw material costs. Sales volume of polyols used in rigid foam applications increased five percent during the third quarter of 2019 but was mostly offset by lower phthalic anhydride and specialty polyols sales volume.

Net sales for European operations declined $5.9 million or 13 percent. The unfavorable impact of lower average selling prices and foreign currency translation negatively impacted the quarter-over-quarter change in net sales by $3.6 million and $1.9 million, respectively. A one percent decline in sales volume negatively impacted net sales quarter-over-quarter by $0.4 million. A stronger U.S. dollar relative to the Polish zloty led to the foreign currency translation effect.

Net sales for Asia and Other operations increased $2.7 million, or 33 percent, quarter-over-quarter primarily due to a 50 percent increase in sales volume. The increase in sales volume positively impacted the quarter-over-quarter change in net sales by $4.1 million. The unfavorable impact of lower average selling prices and foreign currency translation negatively impacted the quarter by $1.1 million and $0.3 million, respectively.

Polymer operating income for the third quarter of 2019 increased $4.0 million, or 21 percent, from operating income for the third quarter of 2018. Gross profit increased $3.4 million, or 13 percent, quarter-over-quarter. Operating expenses declined $0.6 million quarter-over-quarter. Quarter-over-quarter comparisons of gross profit by region and total segment operating expenses and operating income follow:

(Dollars in thousands)	For the Three Months Ended September 30, 2019	For the Three Months Ended September 30, 2018(1)	Increase (Decrease)	Percent Change
Gross Profit and Operating Income				
North America	$ 21,334	$ 19,780	$ 1,554	8
Europe	6,620	6,606	14	0
Asia and Other	2,015	199	1,816	NM
Polymers Segment Gross Profit	$ 29,969	$ 26,585	$ 3,384	13
Operating Expenses	6,686	7,326	(640)	-9
Polymers Segment Operating Income	$ 23,283	$ 19,259	$ 4,024	21

(1) The 2018 North America gross profit and total operating income line items have been retrospectively changed from the amounts originally reported as a result of the Company's first quarter 2019 change in method of accounting for U.S. inventory valuation from LIFO to FIFO.

Gross profit for North American operations increased $1.6 million, or eight percent, quarter-over-quarter due to improved unit margins and slightly higher sales volume. The margin improvement reflects favorable product mix, which benefited from five percent sales volume growth of polyols used in rigid foam applications, partially offset by lower phthalic anhydride and specialty polyols volumes.

Gross profit for European operations was flat between quarters. Higher average unit margins positively impacted quarter-over-quarter gross profit by $0.4 million but were largely offset by the unfavorable impact of foreign currency translation.

Gross profit for Asia and Other operations improved $1.8 million quarter-over-quarter primarily due to improved unit margins and sales volume growth of 50 percent.

Specialty Products

Net sales for the third quarter of 2019 decreased $2.7 million, or 14 percent, versus net sales for the third quarter of 2018. This decrease was primarily related to lower volume and lower average selling prices. Gross profit decreased $0.5 million and operating income decreased $0.4 million quarter-over-quarter primarily due to lower sales volume and unfavorable order timing differences within the Company's pharmaceutical business. These items were partially offset by improved margins within the food and nutritional business.

Corporate Expenses

Corporate expenses, which include deferred compensation, business restructuring and other operating expenses that are not allocated to the reportable segments, decreased $6.4 million between quarters. Corporate expenses were $17.2 million in the third quarter of 2019 versus $23.6 million in 2018. The decrease was primarily attributable to lower deferred compensation expense ($2.6 million), business restructuring expense ($1.3 million) and non-recurring 2018 employee separation costs.

The $2.6 million decrease in quarter-over-quarter deferred compensation expense was primarily due to a $5.15 per share increase in the market price of Company common stock in the third quarter of 2019 compared to a $9.00 per share increase for the third quarter of 2018. The following table presents the quarter-end Company common stock market prices used in the computation of deferred compensation expenses for the three months ended September 30, 2019 and 2018:

	2019 September 30	2019 June 30	2018 September 30	2018 June 30
Company Common Stock Price	$ 97.06	$ 91.91	$ 87.01	$ 78.01

Nine Months Ended September 30, 2019 and 2018

Summary

Net income attributable to the Company for the first nine months of 2019 decreased seven percent to $81.1 million, or $3.48 per diluted share, from $87.2 million, or $3.74 per diluted share, for the first nine months of 2018. Adjusted net income increased two percent to $93.7 million, or $4.02 per diluted share, from $92.2 million, or $3.95 per diluted share, in 2018 (see the "Reconciliation of Non-GAAP Adjusted Net Income and Diluted Earnings per Share" section of this MD&A for reconciliations between reported net income attributable to the Company and related earnings per diluted share and non-GAAP adjusted net income and related earnings per diluted share). 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 nine months of 2019 compared to the first nine months of 2018 follows the summary.

Consolidated net sales decreased $113.4 million, or seven percent, between years. The unfavorable impact of lower average selling prices, lower sales volume and foreign currency translation negatively impacted net sales by $41.5 million, $38.7 million and $33.2 million, respectively. The decrease in average selling prices was primarily due to the pass through of lower raw material costs. Consolidated sales volume decreased three percent year-over-year. Sales volume in the Surfactant segment decreased four percent while sales volume in the Polymer and Specialty Product segments increased four percent each. Approximately 45 percent of the decline in Surfactant volume was due to the Company's exit from its sulfonation business in Germany during the fourth quarter of 2018. The unfavorable foreign currency translation effect reflected a stronger U.S. dollar against the majority of currencies where the Company has foreign operations

Operating income for the first nine months of 2019 declined $15.0 million, or 13 percent, from operating income reported for the first nine months of 2018. Most of this decline was related to lower year-over-year gross profit and higher deferred compensation expense. These two items negatively impacted the year-over-year change in operating income by $9.8 million and $6.5 million, respectively. Foreign currency translation had a $2.5 million unfavorable effect on year-over-year consolidated operating income. From a segment perspective, Polymer and Specialty Product operating income increased $1.3 million and $4.8 million, respectively. Surfactant operating income declined by $15.5 million.

Operating expenses (including deferred compensation and business restructuring expenses) increased $5.3 million, or three percent, between years. Changes in the individual income statement line items that comprise the Company's operating expenses were as follows:

- Selling expenses decreased $0.6 million, or one percent, year-over-year.

- Administrative expenses increased $1.1 million, or two percent, year-over-year primarily due to $3.3 million of environmental remediation expenses incurred in 2019. The majority of these costs relate to the Company's Maywood, New Jersey site. Non-recurring employee separation costs incurred in 2018 partially offset the above.

- R&D expenses declined $1.1 million, or three percent, year-over-year.

- Deferred compensation expense increased $6.5 million year-over-year primarily due to a $23.06 per share increase in the market price of Company common stock during the first nine months of 2019 compared to an $8.04 share increase in the first nine months of 2018. See the *Overview* and *Segment Results-Corporate Expenses* sections of this MD&A for further details.

- Business restructuring expenses were $1.6 million in the first nine months of 2019 compared to $2.3 million in the first nine months of 2018. The 2019 restructuring charges were primarily comprised of severance and office shutdown expenses related to the Specialty Product segment restructuring ($0.5 million), ongoing decommissioning costs associated with the Company's manufacturing facility in Canada that ceased operations in the fourth quarter of 2016 ($0.8 million), and decommissioning expenses associated with the Company's 2018 sulfonation shutdown in Germany ($0.6 million). The 2018 restructuring charges were comprised of asset and spare part write-downs related to the Company ceasing Surfactant operations in Germany ($1.4 million) and decommissioning costs associated with the Canadian plant closure ($0.9 million). See Note 17, *Business Restructuring*, for additional details.

Net interest expense for the first nine months of 2019 declined $3.6 million versus the first nine months of 2018. This decrease was primarily due to higher U.S. interest income earned on U.S. cash balances, resulting from the repatriation of $100.0 million to the United States in 2018, and lower interest expense resulting from scheduled debt repayments and the Company's voluntary prepayment of its 5.88% Senior Notes in the second quarter of 2019.

Other, net was $4.3 million of income for the first nine months of 2019 compared to $2.0 million of income for the first nine months of 2018. The Company recognized $3.1 million of investment income (including realized and unrealized gains and losses) for the Company's deferred compensation and supplemental defined contribution mutual fund assets in the first nine months of 2019 compared to $1.6 million of income in the first nine months of 2018. In addition, the Company reported foreign exchange gains of $0.3 million in 2019 versus $0.9 million of gains in the first nine months of 2018. The Company also reported $0.7 million of lower net periodic pension cost expense in the first nine months of 2019 versus the prior year. The Company also reported a $0.6 million gain on the sale of an asset in 2019.

The Company's effective tax rate was 17.3 percent for the first nine months of 2019 compared to 18.7 percent for the first nine months of 2018. The year-over-year decrease was primarily attributable to: (i) current year incremental U.S. tax credits identified as part of a research and development tax credit study, and; (ii) the non-recurrence of unfavorable tax consequences resulting from the repatriation of $100.0 million to the United States in 2018. These items were substantially offset by other non-recurring favorable tax benefits recognized in the first nine months of 2018.

(In thousands)	For the Nine Months Ended			
Net Sales	September 30, 2019	September 30, 2018	(Decrease)	Percent Change
Surfactants	$ 962,749	$ 1,062,708	$ (99,959)	-9
Polymers	395,904	404,446	(8,542)	-2
Specialty Products	55,102	60,044	(4,942)	-8
Total Net Sales	$ 1,413,755	$ 1,527,198	$ (113,443)	-7

(In thousands)	For the Nine Months Ended			
Operating Income	September 30, 2019	September 30, 2018(1)	Increase (Decrease)	Percent Change
Surfactants	$ 88,913	$ 104,370	$ (15,457)	-15
Polymers	58,148	56,863	1,285	2
Specialty Products	11,374	6,543	4,831	74
Segment Operating Income	$ 158,435	$ 167,776	$ (9,341)	-6
Corporate Expenses, Excluding Deferred Compensation and Restructuring	$ 46,546	$ 46,645	$ (99)	0
Deferred Compensation Expense (Income)	11,478	4,971	6,507	131
Business Restructuring	1,642	2,346	(704)	-30
Total Corporate Expenses	$ 59,666	$ 53,962	$ 5,704	11
Total Operating Income	$ 98,769	$ 113,814	$ (15,045)	-13

(1) The 2018 segment and total operating income line items have been retrospectively changed from the amounts originally reported as a result of the Company's first quarter 2019 change in method of accounting for U.S. inventory valuation from LIFO to FIFO.

Segment Results

Surfactants

Surfactant net sales for the first nine months of 2019 decreased $100.0 million, or nine percent, versus net sales for the first nine months of 2018. The unfavorable impact of lower sales volume, lower average selling prices and foreign currency translation negatively impacted the year-over-year change in net sales by $47.6 million, $30.8 million and $21.6 million, respectively. Sales volume declined four percent versus prior year. A year-over-year comparison of net sales by region follows:

	For the Nine Months Ended			
(In thousands)	September 30, 2019	September 30, 2018	(Decrease)	Percent Change
North America	$ 584,816	$ 643,466	$ (58,650)	-9
Europe	183,028	212,556	(29,528)	-14
Latin America	156,709	156,827	(118)	0
Asia	38,196	49,859	(11,663)	-23
Total Surfactants Segment	$ 962,749	$ 1,062,708	$ (99,959)	-9

Net sales for North American operations decreased $58.7 million, or nine percent, year-over-year. A five percent decline in sales volume, lower average selling prices and the unfavorable impact of foreign currency translation negatively impacted the year-over-year change in net sales by $30.3 million, $27.7 million and $0.7 million, respectively. The decline in sales volume was mostly due to lower commodity demand in the personal care end market, lower demand in the functional products end market and lower sales volume to our distribution partners. Selling prices decreased five percent mostly due to the pass through of lower raw material costs to customers. The foreign currency impact reflected a stronger U.S. dollar relative to the Canadian dollar.

Net sales for European operations decreased $29.5 million, or 14 percent, primarily due to a nine percent decrease in sales volume and the unfavorable effects of foreign currency translation. These items negatively impacted the year-over-year change in net sales by $19.4 million and $11.6 million, respectively. The lower sales volume was principally due to the Company ceasing Surfactant production at its German site during the fourth quarter of 2018. A stronger U.S. dollar relative to the British pound sterling and European euro led to the foreign currency translation effect. Slightly higher average selling prices favorably impacted the year-over-year change in net sales by $1.5 million.

Net sales for Latin American operations were essentially flat year-over-year. A three percent increase in sales volume and higher average selling prices positively impacted the year-over-year change in net sales by $5.2 million and $4.1 million, respectively. These items were offset by foreign currency translation which negatively impacted the year-over-year change in net sales by $9.4 million. The higher sales volume was mostly attributable to higher demand in the laundry and cleaning and agricultural end markets. The higher average selling prices were partially due to one-time benefits related to a VAT tax recovery in Brazil. The year-over-year strengthening of the U.S. dollar against the Columbian and Mexican pesos and Brazilian real generated the unfavorable foreign currency effect.

Net sales for Asian operations decreased $11.7 million, or 23 percent, primarily due to a 13 percent decline in sales volume and lower average selling prices. These items accounted for $6.3 million and $5.6 million, respectively, of the year-over-year change in net sales. The decline in sales volume was largely due to lower commodity demand in the laundry and cleaning end markets and lower sales volume to our distribution partners. The lower selling prices were mostly due to the pass through of lower raw material costs to customers. The favorable effects of foreign currency translation positively impacted the net sales change by $0.2 million.

Surfactant operating income for the first nine months of 2019 decreased $15.5 million, or 15 percent, versus operating income for the first nine months of 2018. Gross profit declined $15.4 million, or nine percent, versus prior year and operating expenses were essentially flat. Year-over-year comparisons of gross profit by region and total segment operating expenses and operating income follow:

(In thousands)	For the Nine Months Ended September 30, 2019	For the Nine Months Ended September 30, 2018(1)	Increase (Decrease)	Percent Change
Gross Profit				
North America	$ 108,175	$ 121,237	$ (13,062)	-11
Europe	26,276	24,060	2,216	9
Latin America	14,710	18,206	(3,496)	-19
Asia	12,011	13,031	(1,020)	-8
Surfactants Segment Gross Profit	$ 161,172	$ 176,534	$ (15,362)	-9
Operating Expenses	72,259	72,164	95	0
Operating Income	$ 88,913	$ 104,370	$ (15,457)	-15

(1) The 2018 North America gross profit and total operating income line items have been retrospectively changed from the amounts originally reported as a result of the Company's first quarter 2019 change in method of accounting for U.S. inventory valuation from LIFO to FIFO.

Gross profit for North American operations decreased $13.1 million, or 11 percent, year-over-year primarily due to lower unit margins and a five percent decline in sales volume. These items negatively impacted the change in gross profit by $7.3 million and $5.7 million, respectively. The lower unit margins were mostly attributable to higher one-time inventory costs associated with the Company's internal Asia-U.S. supply chain. The decline in sales volume was mostly due to lower commodity demand in the personal care end markets, lower demand in the functional products end market and lower sales volume to our distribution partners.

Gross profit for European operations increased $2.2 million, or nine percent, primarily due to lower overhead costs and higher unit margins resulting from the Company ceasing Surfactant production at its German plant site during the fourth quarter of 2018.

Higher unit margins favorably impacted the year-over-year change in gross profit by $6.0 million. A nine percent decline in sales volume and the unfavorable effect of foreign currency translation negatively impacted the current year by $2.2 million and $1.6 million, respectively. The lower sales volume is primarily attributable to the Company's exit from sulfonation in Germany during the fourth quarter of 2018.

Gross profit for Latin American operations decreased $3.5 million, or 19 percent, primarily due to lower unit margins and the unfavorable impact of foreign currency translation. These items negatively impacted the change in year-over-year gross profit by $2.7 million and $1.4 million, respectively. The lower unit margins primarily reflect competitive market pressures and the residual impact of the Ecatepec equipment failure in Mexico. Sales volume growth of three percent positively impacted current year gross profit by $0.6 million.

Gross profit for Asian operations decreased $1.0 million, or eight percent, largely due to a 13 percent decline in sales volume that negatively impacted the year-over-year change in gross profit by $1.6 million. The decline in sales volume was largely due to lower commodity demand in the laundry & cleaning end markets and lower sales volume to our distribution partners. Higher unit margins positively impacted the year-over-year change in gross profit by $0.6 million.

Operating expenses for the Surfactant segment were flat year-over-year.

Polymers

Polymer net sales for the first nine months of 2019 decreased $8.5 million, or two percent, versus net sales for the same period of 2018. A four percent increase in sales volume positively impacted the year-over-year change in net sales by $16.3 million. The unfavorable impact of lower average selling prices and foreign currency translation negatively impacted the year-over-year change in net sales by $13.7 million and $11.1 million, respectively. A year-over-year comparison of net sales by region follows:

	For the Nine Months Ended			
(Dollars in thousands)	September 30	September 30	Increase	Percent
Net Sales	2019	2018	(decrease)	change
North America	$ 242,154	$ 248,160	$ (6,006)	-2
Europe	126,042	132,592	(6,550)	-5
Asia and Other	27,708	23,694	4,014	17
Total Polymers Segment	$ 395,904	$ 404,446	$ (8,542)	-2

Net sales for North American operations declined $6.0 million, or two percent, primarily due to lower average selling prices partially offset by slightly favorable volume growth. The lower average selling prices negatively impacted the change in net sales by $7.1 million. Slightly higher sales volume increased net sales year-over-year by $1.1 million. Sales volume of polyols used in rigid foam applications increased 11 percent during the first nine months of 2019 but was mostly offset by lower phthalic anhydride and specialty polyols sales volume.

Net sales for European operations decreased $6.6 million, or five percent. Sales volume growth of six percent increased net sales year-over-year by $7.7 million. The unfavorable impact of foreign currency translation and lower average selling prices decreased net sales year-over-year by $9.6 million and $4.7 million, respectively. A stronger U.S. dollar relative to the Polish zloty led to the foreign currency translation effect.

Net sales for Asia and Other operations increased $4.0 million, or 17 percent, year-over-year primarily due to a 27 percent increase in sales volume. The increase in sales volume positively impacted the year-over-year change in net sales by $6.5 million. The unfavorable impact of foreign currency translation and lower average selling prices negatively impacted the change in net sales by $1.6 million and $0.9 million, respectively.

Polymer operating income for the first nine months of 2019 increased $1.3 million, or two percent, from operating income for the first nine months of 2018. Gross profit increased $0.5 million, or one percent during the first nine months of 2019 versus prior year. Operating expenses declined $0.8 million, or four percent, year-over-year. Year-over-year comparisons of gross profit by region and total segment operating expenses and operating income follow:

(In thousands)	For the Nine Months Ended September 30, 2019	For the Nine Months Ended September 30, 2018(1)	Increase (Decrease)	Percent Change
Gross Profit and Operating Income				
North America	$ 55,978	$ 58,068	$ (2,090)	-4
Europe	18,606	19,520	(914)	-5
Asia and Other	4,325	845	3,480	NM
Polymers Segment Gross Profit	$ 78,909	$ 78,433	$ 476	1
Operating Expenses	20,761	21,570	(809)	-4
Polymers Segment Operating Income	$ 58,148	$ 56,863	$ 1,285	2

(1) The 2018 North America gross profit and total operating income line items have been retrospectively changed from the amounts originally reported as a result of the Company's first quarter 2019 change in method of accounting for U.S. inventory valuation from LIFO to FIFO.

Gross profit for North American operations declined $2.1 million, or four percent, year-over-year due to slightly lower unit margins that were primarily driven by the consumption of higher priced 2018 year-end inventories carried to guard against winter supply disruptions and the non-recurrence of a $2.1 million class action settlement received in the first quarter of 2018. Slightly higher sales volume positively impacted year-over-year gross profit by $0.3 million. Sales volume of polyols used in rigid foam applications increased 11 percent during the first nine months of 2019 but was mostly offset by lower phthalic anhydride and specialty polyols sales volume.

Gross profit for European operations declined $0.9 million, or five percent, year-over-year. Sales volume growth of six percent positively impacted the year-over-year change in gross profit by $1.1 million. The unfavorable impact of foreign currency translation and lower unit margins negatively impacted year-over-year gross profit by $1.3 million and $0.7 million, respectively.

Gross profit for Asia and Other operations improved $3.5 million due to higher unit margins and 27 percent sales volume growth during the first nine months of 2019.

Specialty Products

Net sales for the first nine months of 2019 declined $4.9 million, or eight percent, versus net sales for the same period of 2018. Sales volume increased four percent but the increase was offset by a decrease in average selling prices. Gross profit increased $4.1 million and operating income increased $4.8 million year-over-year due to improved sales volume and margins within the food and nutritional business and order timing differences within the Company's pharmaceutical and flavor businesses.

Corporate Expenses

Corporate expenses, which include deferred compensation, business restructuring and other operating expenses that are not allocated to the reportable segments, increased $5.7 million between years. Corporate expenses were $59.7 million in the first nine months of 2019 versus $54.0 million in the first nine months of 2018. This increase was primarily attributable to higher deferred compensation expense ($6.5 million) and environmental remediation expense ($3.3 million). These items were partially offset by a decrease in business restructuring expenses ($0.7 million), the non-recurrence of 2018 employee separation costs ($2.1 million) and the non-recurrence of prior year costs associated with the Company's 2018 first quarter acquisition in Mexico.

Deferred compensation expense increased $6.5 million between years. This increase was primarily due to a $23.06 per share increase in the market price of the Company's common stock in the first nine months of 2019 compared to an $8.04 per share increase in the first nine months of 2018. The following table presents the period-end Company common stock market prices used in the computation of deferred compensation expenses for the nine months ended September, 2019 and 2018:

	2019	2018		2017
	September 30	December 31	September 30	December 31
Company Common Stock Price	$ 97.06	$ 74.00	$ 87.01	$ 78.97

LIQUIDITY AND CAPITAL RESOURCES

Overview

For the nine months ended September 30, 2019, operating activities were a cash source of $132.7 million versus a source of $96.2 million for the comparable period in 2018. For the current year period, investing cash outflows totaled $68.5 million, as compared to an outflow of $82.7 million in the prior year period, and financing activities were a use of $74.4 million, as compared to a use of $34.1 million in the prior year. Cash and cash equivalents decreased by $14.2 million compared to December 31, 2018, inclusive of a $3.9 million unfavorable exchange rate impact.

At September 30, 2019, the Company's cash and cash equivalents totaled $286.0 million, of which $162.6 million was held within the United States. The U.S. cash was held in money market funds, deposit accounts and a certificate of deposit totaling $74.0 million, $73.6 million and $15.0 million, respectively. The Company's non-U.S. subsidiaries held $123.4 million of cash outside the United States as of September 30, 2019.

Operating Activity

Net income decreased by $6.1 million versus the comparable period in 2018. Working capital was a use of $22.2 million versus a use of $64.4 million for the comparable to prior year period.

Year-to-date accounts receivable were a use of $9.0 million compared to a use of $34.8 million for the comparable period in 2018. Inventories were a source of $25.9 million in 2019 versus a use of $23.4 million in 2018. Accounts payable and accrued liabilities were a use of $35.3 million in 2019 compared to a use of $6.9 million for the same period in 2018.

Working capital requirements were lower year-to-date, compared to the same period in 2018, due to the changes noted above. The 2019 accounts receivable lower cash usage primarily reflects lower sales quantities. The current year inventory source of cash reflects lower quantities and prices. The current year accounts payable and accrued liabilities cash usage reflects lower quantities purchased and prices. It is management's opinion that the Company's liquidity is sufficient to provide for potential increases in working capital requirements during 2019.

Investing Activity

Cash used for investing activities decreased by $14.2 million year-over-year. In the first nine months of 2018, the Company paid $21.5 million in cash to acquire BASF's production facility in Ecatepec, Mexico and a portion of the related surfactants business. Cash used for capital expenditures was $70.8 million in the first nine months of 2019 versus $62.9 million in the comparable prior year period.

For 2019, the Company estimates that total capital expenditures will range from $110 million to $130 million, inclusive of infrastructure and optimization spending in the United States, Germany and Mexico.

Financing Activity

Cash used for financing activities was $74.4 million in 2019 versus $34.1 million in 2018. The majority of this increase in cash usage relates to the voluntary prepayment of the outstanding principal balance of the Company's 5.88 percent Senior Notes in the second quarter of 2019 and scheduled principal payments on the Company's 3.86 percent Notes that were incurred for the first time in 2019.

The Company purchases shares of its common stock in the open market or from its benefit plans from time to time to fund its own benefit plans and to mitigate the dilutive effect of new shares issued under its benefit plans. The Company may, from time to time, seek to retire or purchase additional amounts of its outstanding equity and/or debt securities through cash purchases and/or exchanges for other securities, in open market purchases, privately negotiated transactions or otherwise, including pursuant to plans meeting the requirements of Rule 10b5-1 promulgated by the SEC. Such repurchases or exchanges, if any, will depend on prevailing market conditions, the Company's liquidity requirements, contractual restrictions and other factors. The amounts involved may be material. In the nine months ended September 30, 2019, the Company purchased 144,457 shares of its common stock at a total cost of $13.2 million, on the open market. As of September 30, 2019, there were 349,830 shares remaining under the current share repurchase authorization.

Debt and Credit Facilities

Consolidated balance sheet debt decreased to $231.9 million as of September 30, 2019 from $276.1 million at December 31, 2018. Net debt (which is defined as total debt minus cash – see the *Reconciliation of Non-GAAP Net Debt* section of this MD&A) decreased by $30.0 million for the first nine months of 2019, from a negative $24.1 million to a negative $54.1 million, primarily due to current year debt repayments.

As of September 30, 2019, the ratio of total debt to total debt plus shareholders' equity was 21 percent compared to 25 percent at December 31, 2018. As of September 30, 2019, the ratio of net debt to net debt plus shareholders' equity was a negative 7 percent, compared to a negative 3 percent at December 31, 2018.

On January 30, 2018, the Company entered into a five year committed $350 million multi-currency revolving credit facility with a syndicate of banks that matures on January 30, 2023. This revolving credit facility replaced the Company's prior $125 million credit agreement. This credit agreement allows the Company to make unsecured borrowings, as requested from time to time, to finance working capital needs, permitted acquisitions, capital expenditures and for general corporate purposes. This unsecured facility is the Company's primary source of short-term borrowings. As of September 30, 2019, the Company had outstanding letters of credit totaling $5.0 million under the revolving credit agreement and no borrowings, with $345.0 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 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. At September 30, 2019, the Company's foreign subsidiaries had outstanding debt of $0.6 million.

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. As of September 30, 2019, testing for these agreements was based on the Company's consolidated financial statements. Under the most restrictive of these debt covenants:

1. The Company is required to maintain a minimum interest coverage ratio, as defined within the agreements, of 3.50 to 1.00, for the preceding four calendar quarters.
2. The Company is required to maintain a maximum net leverage ratio, as defined within the agreements, not to exceed 3.50 to 1.00.
3. The Company is required to maintain net worth of at least $325.0 million.
4. The Company is permitted to pay dividends and purchase treasury shares after December 31, 2017, in amounts of up to $100.0 million plus 100 percent of net income and cash proceeds of stock option exercises, measured cumulatively beginning December 31, 2017. The maximum amount of dividends that could have been paid within this limitation is disclosed as unrestricted retained earnings in Note 15 to the condensed consolidated financial statements.

The Company believes it was in compliance with all of its loan agreements as of September 30, 2019.

ENVIRONMENTAL AND LEGAL MATTERS

The Company's operations are subject to extensive federal, state and local environmental laws and regulations and similar laws in the other countries in which the Company does business. 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 may 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. For the nine months ended September 30, 2019 and 2018, the Company's expenditures for capital projects related to the environment were $1.3 million and $3.1 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 $22.8 million and $21.1 million for the nine months ended September 30, 2019 and 2018, respectively.

Over the years, the Company has received requests for information related to or has been named by the government as a PRP at a number of waste disposal sites where cleanup costs have been or may be incurred under CERCLA and similar state or foreign 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 is likely to 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, PRP 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 $23.9 million to $45.6 million at September 30, 2019, compared to $23.4 million to $44.7 million at December 31, 2018. Within the range of possible environmental losses, management currently concluded that no single amount is more likely to occur than any other amounts in the ranges and, thus, has accrued at the lower end of the ranges; that accrual totaled $23.9 million at September 30, 2019 and $23.4 million at December 31, 2018. Because the liabilities accrued are estimates, actual amounts could differ materially from the amounts reported. Cash expenditures related to legal and environmental matters were $2.8 million for the nine months ended September 30, 2019, compared to $1.0 million for the same period in 2018. The majority of the 2019 cash expenditures relate to environmental remediation costs at the Company's Maywood, New Jersey site.

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. 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, management believes that the Company has no material liability at these sites and 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, of the Company's Annual Report on Form 10-K, Legal Proceedings, in this report and in other filings of the Company with the SEC, which are available upon request from the Company. See also Note 9, *Contingencies*, to the condensed consolidated financial statements for a summary of the environmental proceedings related to certain environmental sites.

OUTLOOK

Management believes its Surfactant strategy, inclusive of its focus on end market diversification, Tier 2 and Tier 3 customers and cost out activities will continue to contribute to margin improvement despite the challenging current environment. Management believes Polymers will continue to benefit from the growing market for insulation material and remains optimistic the business will deliver full year volume growth and incremental margin improvement versus the prior year. Management believes full year Specialty Products results will improve versus the prior year.

CRITICAL ACCOUNTING POLICIES

There have been no changes to the critical accounting policies disclosed in the Company's 2018 Annual Report on Form 10-K.

RECONCILIATION OF NON-GAAP ADJUSTED NET INCOME AND EARNINGS PER SHARE

(In millions, except per share amounts)	Three Months Ended September 30			
	2019		2018	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Net Income Attributable to the Company as Reported(1)	**$ 25.9**	**$ 1.11**	**$ 21.8**	**$ 0.93**
Deferred Compensation Expense (including related investment activity)	1.8	0.08	3.4	0.15
Business Restructuring	0.5	0.02	1.7	0.07
Cash-settled SARs	0.4	0.02	1.1	0.05
Cumulative Tax Effect on Above Adjustment Items	(0.7)	(0.03)	(1.6)	(0.07)
Adjusted Net Income(1)	$ 27.9	$ 1.20	$ 26.4	$ 1.13

(In millions, except per share amounts)	Nine Months Ended September 30			
	2019		2018	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Net Income Attributable to the Company as Reported(1)	**$ 81.1**	**$ 3.48**	**$ 87.2**	**$ 3.74**
Deferred Compensation Expense (including related investment activity)	8.5	0.37	3.5	0.15
Business Restructuring	1.7	0.07	2.3	0.10
Cash-settled SARs	2.3	0.10	0.9	0.04
Environmental Remediation	2.9	0.12	0.0	0.00
Early Debt Repayment	1.2	0.05	0.0	0.00
Cumulative Tax Effect on Above Adjustment Items	(4.0)	(0.17)	(1.7)	(0.08)
Adjusted Net Income(1)	$ 93.7	$ 4.02	$ 92.2	$ 3.95

(1) The 2018 amounts for the noted line items have been retrospectively changed from the amounts originally reported as a result of the Company's first quarter 2019 change in method of accounting for U.S. inventory valuation from LIFO to FIFO.

Management believes that certain non-GAAP measures, when presented in conjunction with comparable GAAP measures, are useful for evaluating the Company's operating performance and provide better clarity on the impact of non-operational items. Internally, the Company uses this non-GAAP information as an indicator of business performance and evaluates management's effectiveness with specific reference to these indicators. These measures should be considered in addition to, not a substitute for or superior to, measures of financial performance prepared in accordance with GAAP. The cumulative tax effect was calculated using the statutory tax rates for the jurisdictions in which the noted transactions occurred.

RECONCILIATION OF NON-GAAP NET DEBT

Management uses the non-GAAP net debt metric to gain a more complete picture of the Company's overall liquidity, financial flexibility and leverage level. This adjusted measure should be considered supplemental to and not a substitute for financial information prepared in accordance with GAAP. The Company's definition of this adjusted measure may differ from similarly titled measures used by other entities.

(In millions)	September 30, 2019	December 31, 2018
Current Maturities of Long-Term Debt as Reported	$ 24.1	$ 37.1
Long-Term Debt as Reported	207.8	239.0
Total Debt as Reported	231.9	276.1
Less Cash and Cash Equivalents as Reported	(286.0)	(300.2)
Net Debt	$ (54.1)	$ (24.1)

Item 3 – Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes to the market risks described in the Company’s 2018 Annual Report on Form 10-K.

Item 4 – Controls and Procedures

a. Evaluation of Disclosure Controls and Procedures

We have conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of September 30, 2019. Based on this evaluation of our disclosure controls and procedures, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of September 30, 2019, such that the information required to be disclosed in our Securities and Exchange Commission reports is recorded, processed, summarized and reported within the time periods specified by the rules and forms of the Exchange Act and is accumulated and communicated to management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

b. Changes in Internal Control Over Financial Reporting

There were no changes in the Company’s internal controls over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2019, 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 2018 Annual Report on Form 10-K and the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2019.

Item 1A – Risk Factors

There have been no material changes to the risk factors disclosed in the Company’s 2018 Annual Report on Form 10-K.

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

Below is a summary by month of share purchases by the Company during the third quarter of 2019:

Month	Total Number of Shares Purchased		Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
July 2019	4,495	(2)	$ 97.95	46	423,605
August 2019	73,869	(3)	$ 94.88	73,775	349,830
September 2019	1,323	(4)	$ 98.29	—	349,830
Total	79,687		$ 95.11	73,821	349,830

(1) On February 19, 2013, the Company’s Board of Directors authorized the Company to repurchase up to 1,000,000 shares of its outstanding common stock.

(2) Represents 46 shares of Company common stock purchased on the open market and 4,449 shares tendered by employees to settle statutory withholding taxes related to a distribution of restricted stock awards and to the exercise of SARs.

(3) Represents 73,775 shares of Company common stock purchased on the open market and 94 shares tendered by employees to settle statutory withholding taxes related to the exercise of SARs.

(4) Represents shares of Company common stock tendered by employees to settle statutory withholding taxes related to the exercise of SARs.

Item 3 – Defaults Upon Senior Securities

None

Item 4 – Mine Safety Disclosures

Not applicable

Item 5 – Other Information

None

Item 6 – Exhibits

Exhibit No.		**Description**
3.2	–	Amended and Restated By-laws of Stepan Company (Amended as of October 22, 2019)
10.1	–	Stepan Company Supplemental Savings and Investment Retirement Plan (Amended and Restated Effective as of January 1, 2019)
31.1	–	Certification of President and Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a)/15d-14(a)
31.2	–	Certification of Vice President and Chief Financial Officer pursuant to Exchange Act Rule 13a- 14(a)/15d-14(a)
32	–	Certification pursuant to 18 U.S.C. Section 1350
101.INS	–	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the inline XBRL document
101.SCH	–	Inline XBRL Taxonomy Extension Schema Document
101.CAL	–	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	–	Inline XBRL Taxonomy Extension Definition Document
101.LAB	–	Inline XBRL Taxonomy Extension Label Linkbase Document
104	–	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

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: October 30, 2019

/s/ Luis E. Rojo

Luis E. Rojo

Vice President and Chief Financial Officer

Exhibit 10.1

Stepan Company
Supplemental Savings and Investment Retirement Plan
(Amended and Restated Effective as of January 1, 2019)

Stepan Company Supplemental Savings and Investment Retirement Plan
(Amended and Restated Effective as of January 1, 2019)

Contents

Contents

Article I The Plan

1.1 Establishment and Amendment of the Plan

Stepan Company, a Delaware corporation, established a supplemental profit sharing plan for the benefit of certain of its Employees, effective as of January 1, 1994, known as the “Stepan Company Supplemental Profit Sharing Plan.” That plan is hereby amended, restated and renamed the Stepan Company Supplemental Savings and Investment Retirement Plan, effective as of January 1, 2019.

1.2 Applicability of Plan

The provisions of this Plan as set forth herein are applicable only to the Employees of the Company in current employment on or after January 1, 2019. For those employees of the Company who terminated employment prior to January 1, 2019, the terms of the Plan as in effect on the date of each such employee’s termination date shall control.

1.3 Purpose of the Plan

The purpose of the Plan is to enable Participants to receive benefits to which such Participants would have been entitled under the Stepan Company Savings and Investment Retirement Plan but for the limitations of sections 401(a)(17) and 415 of the Code.

1.4 Nonqualified Plan

This Plan is intended to be an unfunded deferred compensation plan for a select group of highly compensated Employees and is not intended to be a qualified plan under section 401(a) of the Code. All benefits payable hereunder shall be paid from the general assets of the Company, and Members and Beneficiaries shall not have any greater rights to such assets than other general creditors of the Company.

Article II Definitions

2.1 Definitions

Whenever used in the Plan, the following terms shall have the respective meanings set forth below unless otherwise expressly provided herein, and when the defined meaning is intended the term is capitalized.

(a) "**Account**" means the separate bookkeeping account maintained for each Member which represents the Member's total credits under the Plan as of any Valuation Date, divided into two sub-accounts: SubAccount A and Sub-Account B. Sub-Account A consists of the sum of (i) such Member's Account balance at June 30, 2006, (ii) such Member's credits under Section 4.1 attributable to Profit Sharing Contributions under the Qualified Plan, and (iii) earnings (pursuant to Section 4.4) on such credits. Sub-Account B consists of credits under Section 4.1 attributable to all other Company contributions under the Qualified Plan, and earnings (pursuant to Section 4.4) on such credits. The Plan Administrator may utilize additional sub-accounts for administrative purposes such as tax purposes and aiding in accurate recordkeeping.

(b) "**Affiliate**" means any corporation, partnership, joint venture, trust, association or other business enterprise which is a member of the same controlled group of corporations, trades or businesses as the Company within the meaning of Code Section 414(b) or (c); provided, however, that for purposes only of the term "Affiliate" when used in the definition of "Separation from Service" below, in applying Code Section 1563(a)(l), (2), and (3) in determining a controlled group of corporations under Code Section 414(b), the language "at least 50 percent" shall be used instead of "at least 80 percent" each place it appears in Code Section 1563(a)(l), (2) and (3), and in applying Treasury Reg.§ l.414(c)-2 for purposes of determining trades or businesses (whether or not incorporated) that are under common control for purposes of Code Section 414(c), "at least 50 percent" shall be used instead of "at least 80 percent" each place it appears in Treasury Reg. § 1.414(c)-2.

(c) "**Beneficiary**" means a Beneficiary as described in Section 4.6.

(d) "**Board**" means the Board of Directors of the Company.

(e) "**Change in Control**" shall be deemed to exist on the date on which either of the following events will have occurred:

(1) A third person, including a "group" as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) shares of capital stock of

the Company having 30 percent or more of the total voting power of the Company; or

(2) As a result of any tender or exchange offer, merger or other business combination, sale of assets or contested election, or any combination of the foregoing transactions, a majority of members of the Board is replaced during a 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Board prior to such appointment or election.

(f) "**Code**" means the Internal Revenue Code of 1986, as it may be amended from time to time.

(g) "**Committee**" means the person or persons appointed to administer the Plan as described in Section 5.2.

(h) "**Company**" means Stepan Company, a Delaware Corporation.

(i) "**Employee**" means any person who is employed by the Company.

(j) "**Member"** means a Participant, or a former Participant who still has an Account balance in the Plan.

(k) "**Participant**" means any Employee of the Company who has met and continues to meet the eligibility requirements of the Plan as set forth in Section 3.1.

(l) "**Plan**" means the Stepan Company Supplemental Savings and Investment Retirement Plan, as provided herein and as subsequently amended from time to time.

(m) "**Plan Administrator**" means the Company.

(n) "**Plan Year**" means the 12-consecutive-month period ending each December 31.

(o) "**Qualified Plan**" means the Stepan Company Savings and Investment Retirement Plan and the Stepan Company Employee Stock Ownership Plan II, each as amended from time to time.

(p) "**Separation from Service**" means in respect of a Member, a "separation from service" within the meaning of Code Section 409A and the regulations issued thereunder, including a termination of employment with the Company and all its Affiliates due to retirement, death or other reason. For purposes of applying the definition of "separation from service" under Section 409A, if the Member is on a bona fide leave of absence due to any medically determinable physical or medical impairment that can be expected to result in death or can be expected to last for a continuous period of not less than six months, where such impairment causes the Member to be unable to perform the duties of his or her position of employment or any substantially similar position of employment, a Separation from Service shall be deemed to occur after the expiration of 29 months of sick leave unless the Member retains the right to reemployment under an applicable statute or by contract.

(q) "**Specified Employees**" means, during the 12-month period beginning on each April 1st, an employee of the Company or its Affiliates who met the requirements of Section 416(i)(l)(A)(i), (ii) or (iii) of the Code (applied in accordance with the regulations promulgated thereunder and without regard to Code Section 416(i)(5)) for being a "key employee" at any time during the 12-month period ending on the December 31st immediately preceding such April 1st. Notwithstanding the foregoing, a Member who otherwise would be a Specified Employee under the preceding sentence shall not be a Specified Employee for purposes of the Plan unless, as of the date of the Member's Separation from Service, stock of the Company or an Affiliate is publicly traded on an established securities market or otherwise.

(r) "**Valuation Date**" means the last business day of each calendar quarter, and such other dates as determined by the Company pursuant to a nondiscriminatory policy.

2.2 Gender and Number

Unless the context clearly requires otherwise, the masculine pronoun whenever used shall include the feminine and neuter pronoun, and the singular shall include the plural.

Article III Participation and Service

3.1 Participation

A salaried Employee of the Company shall become a Participant in the Plan as of the first day he becomes both (a) a Company officer or a departmental vice president and (b) a participant in the Qualified Plan.

3.2 Duration of Participation

A Participant shall continue to be a Participant until the Participant terminates employment with the Company; thereafter, the Participant shall be a Member for as long as the Participant has an Account balance in the Plan.

Article IV Supplemental Benefits

4.1 Supplemental Benefit

For each Plan Year in which an Employee is a Participant, the Company will credit to each Participant's Account an amount equal to (a) minus (b) where—

(a) is the amount which would have been credited to the Member's account under the Qualified Plan from employer contributions for such year had the amounts not been limited by sections 415 and 401(a)(17) of the Code; and

(b) is the aggregate amount which actually is credited to the Member's account under the Qualified Plan.

(c) Notwithstanding the foregoing:

(1) For purposes of (a) above, "employer contributions" will not include any salary reduction contributions by such Member to the Qualified Plan pursuant to Section 401(k)(2)(A) of the Code; and

(2) For purposes of (b) above, amounts actually credited to such Member's account under the Qualified Plan will not include any such salary reduction contributions.

(3) The term "account" for purposes of this Section 4.1 will mean all of a Member's accounts and subaccounts under the Qualified Plan, excluding any account attributable to such Member's salary reduction contributions to the Qualified Plan pursuant to Section 401(k)(2)(A) of the Code.

4.2 Discretionary Benefits

The Board (or its delegate) shall have the authority to provide any discretionary supplementary or additional benefit pursuant to the Plan to a Member at any time after the Member ceases to be an Employee.

4.3 Vesting of Accounts

(a) Each Member's interest in the portion of such Member's Sub-Account A, or any other sub-account, that is attributable to Profit Sharing Contributions under the Qualified Plan (and earnings on such amounts pursuant to Section 4.4) will be fully vested and nonforfeitable (i) following the completion of two Years of Service, as that term is defined in the Qualified Plan, (ii) upon reaching the Member's Normal Retirement Age, as that term is defined in the Qualified Plan, (iii) upon the Participant incurring a Disability, as that term is defined in the Qualified Plan, while still an Employee, or (iv) upon the Member's death while still an Employee.

(b) Each Member's interest in (i) the portion of such Member's Sub-Account A that is not attributable to Profit Sharing Contributions under the Qualified Plan (and earnings on such amounts pursuant to Section 4.4), (ii) the Member's Sub-Account B and (iii) the portion of any other sub-account that is not attributable to Profit Sharing Contributions under the Qualified Plan (and earnings on such amounts pursuant to Section 4.4), in each case will at all times be fully vested and nonforfeitable.

4.4 Earnings on Account

A Member's Account under this Article IV will be credited with the same rate(s) of earnings as are Company contributions under the Qualified Plan (other than salary reduction contributions pursuant to Section 401(k)(2)(A) of the Code).

The Company shall not be required to direct that any amount credited to a Member's Account actually be invested in the same funds as Company contributions under the Qualified Plan. Rather, such accruals shall be tracked as bookkeeping accounts, as if the investments corresponding to those made by each Member under the Qualified Plan were actually made under this Plan, at the same time, and in the same proportionate amounts as elected under the Qualified Plan.

The administration of such accruals under this Plan shall be the responsibility of the Committee or its designate, and shall be conducted according to such rules, procedures, and determinations as the Committee (or the Committee's designate), at its sole discretion, deems appropriate. Members and their beneficiaries shall have no right to direct the actual investment of any funds subject to this Plan.

4.5 Form and Timing of Benefit Payments

Benefits payable under this Article IV attributable to the Member's Account shall be payable in a lump sum within 90 days following the earlier to occur of: (a) the Member's Separation from Service, or (b) a Change in Control. The actual date of payment within such 90-day period shall be determined by the Company in its sole discretion, and neither the Member nor his or her Beneficiary shall have the right to designate the taxable year of payment. Notwithstanding the foregoing, if payment to a Member is made on account of the Member's Separation from Service and the Member is a Specified Employee as of the date of Separation from Service, then any amount that is payable to the Member shall be paid instead to the Member in a lump sum on the earlier of (x) the first day of the seventh month following the Member's Separation from Service and (y) the date of the Member's death.

4.6 Beneficiary

Each Member shall be entitled to designate one or more beneficiaries of the Member under this Plan. Such beneficiary may or may not be the same as those named by the Member under the Qualified Plan. All designations shall be signed by the Member and shall be in such form as prescribed by the Committee or its designate. Each designation shall be effective as of the date received by the Company.

Members may change their designations of beneficiary on such form as prescribed by the Committee or its designate. The payment of account balances under the Plan shall be in accordance with the last unrevoked written designation of beneficiary that has been signed by the Member and delivered by the Member to the Company prior to the Member's death.

In the event that all the beneficiaries named by a Member pursuant to this Section 4.6 predecease the Member, the amounts that would have been paid to the Member or the Member's beneficiaries under this Plan shall be paid to the Member's estate.

In the event a Member does not designate a beneficiary, or for any reason such designation is ineffective, in whole or in part, the amounts that otherwise would have been paid to the Member or the Member's beneficiaries under the Plan shall be paid to the Member's estate.

4.7 Accounts

The Company shall establish and maintain separate individual bookkeeping accounts for Company benefits accrued hereunder and earnings accruals corresponding to such Company credits attributable to the Member pursuant to Section 4.1 herein. Such accounts shall be administered according to such rules and procedures as the Committee (or its designate), at its sole discretion, deems appropriate.

4.8 Withholding Taxes

The Company may withhold from a Member's compensation and from any payment under this Plan any taxes required to be withheld with respect to contributions or benefits under this Plan. Notwithstanding any other provision of the Plan (including, without limitation, Sections 6.11 and 6.12), the Company does not guarantee any particular tax result for any Member or Beneficiary with respect to participation in or payments under the Plan, and each Member or Beneficiary shall be responsible for any taxes imposed on the Member or Beneficiary with respect to such participation or payments under the Plan.

Article V Administration

5.1 Plan Administrator

The Plan Administrator shall be responsible for the general administration of the Plan and for carrying out the provisions thereof, except to the extent that such responsibility has been allocated or delegated in or pursuant to any other provision hereof or by action of the Board.

5.2 Plan Committee

The authority to control and manage the operation and administration of the Plan is vested in an administrative Committee. The Committee shall consist of one or more individual members as the Board may appoint from time to time. If there are no members of the Committee, the Board shall constitute the Committee.

5.3 Allocation and Delegation of Committee Responsibilities and Powers

In exercising its authority to control and manage the operation and administration of the Plan, the Committee may allocate all or any part of its responsibilities and powers to any one or more of its members and may delegate all or any part of its responsibilities and powers to any person or persons selected by it. Any such allocation or delegation and the acceptance thereof by the Committee member or delegate shall be in writing and may be revoked at any time.

5.4 Rules

Subject to the limitations contained in the Plan, the Committee shall be empowered from time to time in its discretion to adopt bylaws and establish rules for the conduct of its affairs and the exercise of the duties imposed upon it under the Plan.

5.5 Administration

The Committee shall be responsible for the administration of the Plan on behalf of the Plan Administrator. The Committee shall have all such powers as may be necessary or appropriate to carry out the provisions hereof and may, from time to time, establish rules for the administration of the Plan and the transaction of the Plan’s business. In making any such determination or rule, the Committee shall pursue uniform policies as from time to time established by the Committee and shall not discriminate in favor of or against any Member. The Committee shall have the exclusive and absolute discretion to make any finding of fact necessary or appropriate for any purpose under the Plan including, but not limited to, the determination of the eligibility for and the amount of any benefit payable under the Plan. The Committee shall have the exclusive and absolute discretion to interpret the terms and provisions of the Plan and to determine any and all questions arising under the Plan or in connection with the administration thereof, including, without limitation, the right to remedy or resolve possible ambiguities, inconsistencies or omissions, by general rule or particular decision. All findings of fact, determinations, interpretation, and decisions of the Committee shall be final, conclusive and binding upon all persons having or claiming to have any interest or right under the Plan.

5.6 Accounts and Records

The Accounts and records of the Plan shall be maintained by the Committee (or its designee) and shall accurately disclose the status of the Accounts of each Member or each Member’s Beneficiary in the Plan.

Each Member shall be advised from time to time, at least once annually during each Plan Year, as to the status of the Member’s Account.

5.7 No Enlargement of Employee Rights

Nothing contained in the Plan shall be deemed to give any Employee the right to be retained in the service of the Company or to interfere with the right of the Company to discharge or retire any Employee at any time.

5.8 Appeals from Denial of Claims

If any claim for benefits under the Plan is wholly or partially denied, the claimant shall be given notice in writing within a reasonable period of time after receipt of the claim by the Plan (not to exceed 90 days after receipt of the claim or, if special circumstances require an extension of time, written notice of the extension shall be furnished to the claimant and an additional 90 days will be considered reasonable) by registered or certified mail of such denial, written in a manner calculated to be understood by the claimant, setting forth the following information:

(a) the specific reasons for such denial;

(b) specific reference to pertinent Plan provisions on which the denial is based;

(c) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary; and

(d) an explanation of the Plan’s claim review procedure.

The claimant also shall be advised that he or his duly authorized representative may request a review by the Committee of the decision denying the claim by filing with the Committee, within 60 days after such notice has been received by the claimant, a written request for such review, and that he may review pertinent documents, and submit issues and comments in writing within the same 60-day period. If such request is so filed, such review shall be made by the Committee within 60 days after receipt of such request, unless special circumstances require an extension of time for processing, in which case the claimant shall be so notified within the original 60-day period and a decision shall be rendered as soon as possible, but not later than 120 days after receipt of the request for review. The Member or Beneficiary shall be given written notice of the decision resulting from such review, which notice shall include specific reasons for the decision, written in a manner calculated to be understood by the claimant, and specific references to the pertinent Plan provisions on which the decision is based.

5.9 Notice of Address and Missing Persons

Each person entitled to benefits under the Plan must file with the Committee or its designee, in writing, his post office address and each change of post office address. Any communication, statement or notice addressed to such a person at his latest reported post office address will be binding upon him for all purposes of the Plan and neither the Plan Administrator, the Committee nor the Company shall be obliged to search for or ascertain his whereabouts. In the event that such person cannot be located, the Committee may direct that payment of such benefit with respect to such person shall be discontinued and all liability for the payment thereof shall terminate; provided, however, that in the event of the subsequent reappearance of the Member or Beneficiary prior to termination of the Plan, the benefits shall be paid in accordance with Article IV.

5.10 Data and Information for Benefits

The Company shall furnish to the Committee such data and information as may be required. The records of the Company as to a Member's period of employment, termination of employment and reasons therefor, leave of absence, reemployment and Compensation shall be presumed to be accurate unless determined to be incorrect. All persons claiming benefits under the Plan must furnish to the Committee or its designated agent such documents, evidence, or information as the Committee or its designated agent consider necessary or desirable for the purpose of administering the Plan; and such person must furnish such information promptly and sign such documents as the Committee or its designated agent may require before any benefits become payable under the Plan.

5.11 Indemnity for Liability

The Committee and the individual members thereof and any employees to whom the Committee has delegated responsibility in accordance with Section 5.3 shall be indemnified by the Company against any and all liabilities, losses, costs and expenses (including legal fees and expenses) of whatsoever kind and nature which may be imposed on, incurred by, or asserted against the Committee, its members, or such Employees by reason of the performance of a Committee function if the Committee, such members or Employees did not act dishonestly or in willful violation of the law or regulation under which such liability, loss, cost or expense arises.

5.12 Effect of a Mistake

In the event of a mistake or misstatement as to the eligibility, participation or service of any Member, or the amount of payments made or to be made to a Member or Beneficiary, the Committee shall, if possible, cause to be withheld or accelerated or otherwise make adjustment of such amounts of payments as will in its sole judgment result in the Member or Beneficiary receiving the proper amount of payments under this Plan.

5.13 Self Interest

A member of the Committee who is also a Member shall not vote on any question relating specifically to himself.

Article VI Miscellaneous

6.1 Amendment and Termination

(a) The Company does hereby expressly and specifically reserve the sole and exclusive right at any time by action of the Board to amend, modify or terminate the Plan.

(b) While the Company contemplates carrying out the provisions of the Plan indefinitely with respect to its Employees, the Company shall not be under any obligation or liability whatsoever to maintain the Plan for any minimum or other period of time.

6.2 Incompetency

Every person receiving or claiming benefits under the Plan shall be conclusively presumed to be mentally competent and of age until the Committee receives written notice, in a form and manner acceptable to it, that such person is incompetent or a minor, and that a guardian, conservator, or other person legally vested with the care of such person's estate has been appointed. In the event that the Committee finds that any person to whom a benefit is payable under the Plan is unable to properly care for such person's affairs, or is a minor, then any payment due (unless a prior claim therefor shall have been made by a duly appointed legal representative) may be paid to the spouse, a child, a parent, a brother, a sister, or to any person deemed by the Committee to have incurred expense for such person otherwise entitled to payment.

In the event a guardian or conservator of the estate of any person receiving or claiming benefits under the Plan shall be appointed by a court of competent jurisdiction, payments shall be made to such guardian or conservator, provided that proper proof of appointment is furnished in a form and manner suitable to the Committee.

To the extent permitted by law, any payment made under the provisions of this Section 6.2 shall be a complete discharge of liability under the Plan.

6.3 Nonalienation

The benefits payable at any time under the Plan shall not be subject in any manner to alienation, sale, transfer, assignment, pledge, attachment, garnishment or encumbrance of any kind. Any attempt to alienate, sell, transfer, assign, pledge, or otherwise encumber any such benefit, whether presently or thereafter payable, shall be void. No benefit shall in any manner be liable for or subject to the debts or liabilities of any Member or of any other person entitled to any benefit.

6.4 Applicable Law

The Plan and all rights hereunder shall be governed by and construed in accordance with the laws of the State of Illinois to the extent such laws have not been preempted by applicable federal law.

6.5 Severability

If a provision of this Plan shall be held illegal or invalid, the illegality or invalidity shall not affect the remaining parts of the Plan and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included in this Plan.

6.6 Notice

Any notice or filing required or permitted to be given to the Company under the Plan shall be sufficient if in writing and hand delivered, or sent by registered or certified mail to the Corporate Secretary of the Company. Notice to the Corporate Secretary of the Company, if mailed, shall be addressed to the principal executive offices of the Company. Notice mailed to a Participant shall be at such address as is given in the records of the Company. Notices shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification. Notices sent to a Participant while an Employee may be sent to his Company-provided electronic mail address.

6.7 Costs of the Plan

All costs of implementing and administering the Plan shall be borne by the Company.

6.8 Successors

All obligations of the Company under the Plan shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation or otherwise, of all or substantially all of the business and/or assets of the Company.

6.9 Source of Payments

This Plan is unfunded, and the Company will make Plan benefit payments solely on a current disbursement basis.

6.10 Counterparts

This Plan has been established by the Company and may be executed in any number of counterparts, each of which shall be considered as the original, and no requirements to produce another counterpart shall exist.

6.11 Section 409A of the Code

It is intended that the Plan (including any amendments thereto) comply with the provisions of Section 409A of the Code so as to prevent the inclusion in gross income of any amounts accrued hereunder in a taxable year that is prior to the taxable year or years in which such amounts would otherwise be actually distributed or made available to the Members. The Plan shall be interpreted, construed and administered in a manner that will comply with Section 409A of the Code, including proposed, temporary or final regulations or any other guidance issued by the Secretary of the Treasury and the Internal Revenue Service with respect thereto.

6.12 Timing of Payments

Notwithstanding any provision of the Plan to the contrary, if calculation of the amount of a payment is not administratively practicable due to events beyond the control of the Member or his or her Beneficiary or if making of a payment would jeopardize the ability of the Company to continue as a going concern, a payment will be treated as made on the specified date or in the specified period for purposes of the Plan if the payment is made during the first calendar year in which the calculation of the amount of the payment is administratively practicable or in which the making of the payment would not have such effect on the Company, as the case may be. In addition, payments of a Member’s account may be delayed or accelerated by the Company upon events and conditions as may be provided under Code Section 409A and any regulations or other guidance issued thereunder.

[Signature Page Follows]

In Witness Whereof, Stepan Company has caused this instrument to be executed by its duly authorized officers as of July 24, 2019, but effective as of January 1, 2019.

Stepan Company

/s/ Janet A. Catlett
ByJanet A. Catlett
ItsVice President and Chief
Human Resources Officer

Attest:

/s/ David G. Kabbes
ByDavid G. Kabbes
ItsVice President, General Counsel
and Secretary

Exhibit 3.2

AMENDED AND RESTATED BY-LAWS
STEPAN COMPANY
A DELAWARE CORPORATION
(Amended as of October 22, 2019)

ARTICLE I
OFFICES

Section 1. Registered Office in Delaware. The address of the registered office of Stepan Company (the “Corporation”) in the State of Delaware and the registered agent of the Corporation at such address shall be as provided in the certificate of incorporation of the Corporation, as it may be amended and/or restated from time to time (the “Certificate of Incorporation”).

Section 2. Other Offices. The Corporation may have such other offices, either within or outside of the State of Delaware, as the Board of Directors of the Corporation (the “Board”) may from time to time determine or the business of the Corporation may require from time to time.

ARTICLE II
STOCKHOLDERS

Section 1. Annual Meeting. The annual meeting of stockholders for the election of directors and for the transaction of such other business as may properly come before the meeting shall be held on such date and at such time as the Board shall determine from time to time. The Board may postpone, reschedule or cancel any annual meeting of stockholders previously scheduled by the Board.

Section 2. Special Meetings.

(a) Special meetings of the stockholders for any purpose or purposes, unless otherwise prescribed by law or by the Certificate of Incorporation, may be called by the Chair of the Board, by the Board, or by the Secretary of the Corporation at the request of the holders of shares of the Corporation’s common stock or any other stock of the Corporation as may be designated by the Board (collectively, the “Capital Stock”) representing not less than one-third of the voting power of all the outstanding shares of the Capital Stock entitled to vote in the election of directors generally, subject to compliance with the following provisions of Section 2.

(b) Any person seeking to request a special meeting shall first request that the Board fix a record date to determine the persons entitled to request a special meeting (the “ownership record date”) by delivering notice in writing to the Secretary of the Corporation at the principal executive offices of the Corporation (the “record date request notice”). A person’s record date request notice shall contain information about the class or series and number of shares of Capital Stock of the Corporation that are owned of record and beneficially by the person and state the business proposed to be acted on at the meeting. Upon receiving a record date request notice, the Board may set an ownership record date. Notwithstanding any other provision of these By-laws, the ownership record date shall not precede the date upon which the resolution fixing the ownership record date is adopted by the Board, and shall not be more than 10 days after the close of business on the date upon which the resolution fixing the ownership record date is adopted by the Board. If the Board, within 10 days after the date upon which a valid record date request notice is received by the Secretary of the Corporation, does not adopt a resolution fixing the ownership record date, the ownership record date shall be the close of business on the 10th day after the date upon which a valid record date request notice is received by the Secretary (or, if such 10th day is not a business day, the first business day thereafter).

(c) In order for a stockholder-requested special meeting to be called by the Secretary of the Corporation, one or more written requests for a special meeting signed by persons (or their duly authorized agents) who own or who are acting on behalf of persons who own, as of the ownership record date, at least the requisite percent established in Section 2(a) (the “special meeting request”), shall be delivered to the Secretary. A special meeting request shall: (1) state the business (including the identity of nominees for election as a director, if any) proposed to be acted on at the meeting, which shall be limited to the business set forth in the record date request notice received by the Secretary; (2) bear the date of signature of each such person (or duly authorized agent) submitting the special meeting request; (3) set forth the name and address of each person submitting the special meeting request (as they appear on the Corporation's books, if applicable); (4) contain the information required by Section 5 of this Article II with respect to any director nominations or other business proposed to be presented at the special meeting, and as to each person requesting the meeting and each other person (including any beneficial owner) on whose behalf the person is acting, other than persons who have provided such request solely in response to any form of public solicitation for such requests; (5) include documentary evidence that the requesting persons own the requisite percent as of the ownership record date; provided, however, that if the requesting persons are not the beneficial owners of the shares representing the requisite percent, then to be valid, the special meeting request must also include documentary evidence of the number of shares owned by the beneficial owners on whose behalf the special meeting request is made as of the ownership record date; and (6) be delivered to the Secretary of the Corporation at the principal executive offices of the Corporation, by hand or by certified or registered mail, return receipt requested, within 60 days after the ownership record date. The special meeting request shall be updated and supplemented within five business days after the record date for determining the stockholders entitled to vote at the stockholder requested-special meeting (or by the opening of business on the date of the meeting, whichever is earlier, if the record date for determining the stockholders entitled to vote at the meeting is different from the record date for determining the stockholders entitled to notice of the meeting), and in either case such information when provided to the Corporation shall be current as of the record date for determining the stockholders entitled to vote at the meeting. In addition, the requesting person and each other person (including any beneficial owner) on whose behalf the person is acting, shall provide such other information as the Corporation may reasonably request within 10 business days of such a request.

(d) After receiving a special meeting request, the Board shall determine in good faith whether the persons requesting the special meeting have satisfied the requirements for calling a special meeting of stockholders, and the Corporation shall notify the requesting person of the Board's determination about whether the special meeting request is valid, which determination shall be conclusive and binding on the Corporation and all stockholders and other persons. The date, time and place of the special meeting shall be fixed by the Board, and the date of the special meeting shall not be more than 90 days after the date on which the Board fixes the date of the special meeting. The record date for the special meeting shall be fixed by the Board as set forth in Section 7(a) of this Article II.

(e) A special meeting request shall not be valid, and the Corporation shall not call a special meeting if: (1) the special meeting request relates to an item of business that is not a proper subject for stockholder action under, or that involves a violation of, applicable law; (2) an item of business that is the same or substantially similar (as determined in good faith by the Board) as an item of business that was presented at a meeting of stockholders occurring within 90 days preceding the earliest date of signature on the special meeting request, provided that the removal of directors and the filling of the resulting vacancies shall be considered the same or substantially similar to the election of directors at the preceding annual meeting of stockholders; (3) the special meeting request is delivered during the period commencing 90 days prior to the first anniversary of the preceding year's annual meeting and ending on the date of the next annual meeting of stockholders; or (4) the special meeting request does not comply with the requirements of this Section 2.

(f) Any person who submitted a special meeting request may revoke its written request by written revocation delivered to the Secretary of the Corporation at the principal executive offices of the Corporation at any time prior to the stockholder-requested special meeting. A special meeting request shall be deemed revoked (and any meeting scheduled in response may be cancelled) if the persons submitting the special meeting request, and any beneficial owners on whose behalf they are acting (as applicable), do not continue to own at least the requisite percent at all times between the date the record date request notice is received by the Corporation and the date of the applicable stockholder-requested special meeting, and the requesting person shall promptly notify the Secretary of the Corporation of any decrease in ownership of shares of stock of the Corporation that results in such a revocation. If, as a result of any revocations, there are no longer valid unrevoked written requests from the requisite percent, the Board shall have the discretion to determine whether or not to proceed with the special meeting.

(g) Business transacted at a stockholder-requested special meeting shall be limited to: (1) the business stated in the valid special meeting request received from the requisite percent; and (2) any additional business that the Board determines to include in the Corporation's notice of meeting. If none of the persons who submitted the special meeting request appears at the special meeting to present the matter or matters to be brought before the special meeting that were specified in the special meeting request, the Corporation need not present the matter or matters for a vote at the meeting, notwithstanding that proxies in respect of such vote may have been received by the Corporation. The Board may postpone, reschedule or cancel any special meeting of stockholders previously scheduled pursuant to Section 2 of this Article II.

Section 3. Place of Meeting. Meetings of stockholders shall be held at the Corporation's principal executive offices in Northfield, Illinois or at such other place, if any, either within or outside of the State of Delaware, as the Board shall designate.

Section 4. Meetings by Remote Communication. Notwithstanding anything to the contrary herein, the Board may, in its sole discretion, determine that any meeting of the stockholders shall not be held at any place, but may instead be held solely by means of remote communication as provided under the General Corporation Law of the State of Delaware (the "DGCL"). The Board may, in its sole discretion, also determine that any meeting of the stockholders shall be held at a particular place and allow stockholders and proxy holders to participate in (and be deemed present in person at) such meeting by means of remote communication as provided under the DGCL.

Section 5. Advance Notification of Proposals and Nominations at Stockholders' Meetings. If a stockholder desires to submit a proposal for consideration at an annual or special stockholders' meeting (other than proposals properly made in accordance with Rule 14a-8 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), or to nominate persons for election as directors at any stockholders' meeting duly called for the election of directors, such stockholder must (a) be a stockholder of record both on the date of the giving of the notice provided for in this Section 5 and at the time of the meeting, (b) be entitled to vote at the meeting, and (c) comply with the notice procedures set forth in this Section 5. In addition to any other applicable requirements, for business or nominations to be properly brought before an annual or special stockholders' meeting by a stockholder, such stockholder must have given timely notice thereof in proper written form to the Secretary.

To be timely, a stockholder's notice to the Secretary must be delivered or mailed to and received by the Secretary at the principal executive offices of the Corporation (i) with respect to an annual meeting of stockholders, not more than 120 days nor less than 90 days prior to the first anniversary date of the immediately preceding annual meeting; *provided*, *however*, that in the event that the annual meeting is called for a date that is not within thirty days before or after such anniversary date, notice by a stockholder in order to be timely must be so delivered or mailed and received not later than the close of business on the tenth day following the date on which notice of such meeting is first given to stockholders or public disclosure of the date of such meeting is made, whichever first occurs, and (ii) with respect to a special meeting of stockholders, the close of business on the tenth day following the date on which notice of such meeting is first given to stockholders or public disclosure of the date of such meeting is made, whichever first occurs.

To be in proper written form, a stockholder's notice must set forth the following:

(1) as to each matter of business (other than director nominations, which are specifically addressed in clause (2) below) such stockholder proposes to bring before the stockholders' meeting, (A) a description of the business desired to be brought before the meeting in sufficient detail for the business to be summarized on the agenda for the meeting, (B) the reasons such stockholder proposes that such business be brought before the meeting and any substantial interest (within the meaning of Item 5 of Schedule 14A under the Exchange Act) of such stockholder in such business, (C) a description of all agreements, arrangements, understandings and relationships between or among such stockholder and any other person or persons or entity or entities (including their names) in connection with the proposal of such business by such stockholder and any material interest of such persons or entities in such business, and (D) a representation that such stockholder is a holder of record of Capital Stock of the Corporation at the time of giving the notice with respect to such business, is entitled to vote at the meeting on such business and intends to appear at the meeting in person or by proxy to bring such business before the meeting;

(2) as to each person whom such stockholder proposes to nominate for election as a director, (A) the name, age, business address and residence address of such person, (B) the

principal occupation or employment of such person, (C) all information with respect to such person that would be required to be set forth in a stockholder's notice pursuant to this Section 5 if such person were a Proposing Person (as defined below), (D) a description of all direct and indirect compensation and other material agreements, arrangements, understandings and relationships during the past three years, between or among any Proposing Person, on the one hand, and such proposed nominee, his or her affiliates and associates, or others acting in concert therewith, on the other hand, (E) any other information relating to such person that would be required to be disclosed in a proxy statement or other filing required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Exchange Act, (F) all other information that would be required to be disclosed pursuant to Item 404 of Regulation S-K promulgated by the Securities and Exchange Commission (the "SEC"), as amended, if each Proposing Person were the "registrant" for purposes of such rule and such proposed nominee were a director or executive officer of such registrant, (G) the written consent of such person to being named as a nominee and to serve as a director if elected, (H) a statement whether such person, if elected, intends to tender, promptly following such person's failure to receive the required vote for re-election at the next meeting at which such person would face re-election, an irrevocable resignation effective upon acceptance of such resignation by the Board and (I) a representation that such stockholder is a holder of record of Capital Stock of the Corporation at the time of giving the notice with respect to such nomination, is entitled to vote at the meeting on the election of directors and intends to appear in person or by proxy at the meeting to propose such nominee for election as a director at the meeting; and

(3) as to each Proposing Person, (A) the name and record address of such Proposing Person, (B) the class or series and number of shares of Capital Stock or other securities of the Corporation that are, directly or indirectly, owned of record or beneficially by such Proposing Person, (C) any option, warrant, convertible security, stock appreciation right, or similar right with an exercise or conversion privilege, or a settlement payment or mechanism at a price, related to any shares of Capital Stock or other securities of the Corporation or with a price or value derived in whole or in part from the price or value of any shares of Capital Stock or other securities of the Corporation or any derivative, synthetic, hedging, swap or similar transaction or arrangement having characteristics of a long or short position or ownership interest in any shares of Capital Stock or other securities of the Corporation, whether or not any such instrument or right shall be subject to settlement in the underlying shares of Capital Stock or other securities of the Corporation or otherwise, and any other direct or indirect opportunity to profit or share in any profit derived from any increase or decrease in the price or value of shares of Capital Stock or other securities of the Corporation (each, a "Derivative Instrument") directly or indirectly owned beneficially by such Proposing Person, (D) any proxy, agreement, arrangement, understanding or relationship pursuant to which such Proposing Person has given or received a right to vote, directly or indirectly, any shares of Capital Stock or other securities of the Corporation, (E) any agreement, arrangement, understanding or relationship, including any repurchase or similar so-called "stock borrowing" agreement or arrangement, which such Proposing Person has engaged in or is a party to, directly or indirectly, the purpose or effect of which is to mitigate loss to, reduce the economic risk of shares of Capital Stock or other securities of the Corporation by, manage the risk of share price changes for, or increase or decrease the voting power of, such Proposing Person with respect to shares of Capital Stock or other securities of the Corporation, or which provides, directly or indirectly, the opportunity to profit from any increase or decrease in the price or value of the shares of Capital Stock or other securities of the Corporation, (F) any rights to dividends on the shares of Capital Stock or other securities of the Corporation owned beneficially by such Proposing Person that are separated or separable from the underlying shares of Capital Stock or securities of the Corporation, (G) any performance-related fees (other than an asset-based fee) to which such Proposing Person is or may be directly or indirectly entitled based on any increase or decrease in the price or value of any shares of Capital Stock or other securities of the Corporation or Derivative Instruments, if any, and (H) any other information relating to such Proposing Person that would be required to be disclosed in a proxy statement or other filing required to be made in connection with solicitations of proxies in support of the proposal or for the election of directors in a contested election pursuant to Section 14 of the Exchange Act.

For the purposes of this Section 5, (A) the terms "affiliate" and "associate" shall each have the meaning set forth in Rule 12b-2 under the Exchange Act, (B) the term "beneficial owner" (and similar terms) shall have the meaning set forth in Rule 13d-3 under the Exchange Act, and (C) the term "Proposing Person" shall mean (w) the stockholder providing notice of business or a nomination proposed to be brought before or made at the meeting, (x) the beneficial owner or beneficial owners of

Capital Stock, if different, on whose behalf the notice of business or a nomination proposed to be brought before or made at the meeting is made, (y) any affiliate or associate of such stockholder or any such beneficial owner, and (z) any other person or entity with whom such stockholder or any such beneficial owner (or any of their respective affiliates and associates) is acting in concert.

A stockholder providing notice of business or a nomination proposed to be brought before or made at a stockholders' meeting shall further update and supplement such notice, if necessary, so that the information provided or required to be provided in such notice pursuant to this Section 5 shall be true and correct as of the record date for the meeting and as of the date that is ten business days prior to the meeting or any adjournment or postponement thereof. Such update and supplement shall be delivered or mailed to and received by the Secretary not later than ten business days after the record date for the meeting (in the case of the update and supplement required to be made as of the record date), and not later than eight business days prior to the date for the meeting or, if the meeting is adjourned or postponed, on the first practicable date after any adjournment or postponement thereof (in the case of the update and supplement required to be made as of ten business days prior to the meeting or any adjournment or postponement thereof).

The presiding officer of the stockholders' meeting shall, if the facts warrant, refuse to acknowledge a proposal or nomination not made in compliance with the foregoing procedures, and any proposal or nomination not properly brought before the meeting shall not be transacted.

Notwithstanding the foregoing provisions of this Section 5, in order to include information with respect to a stockholder proposal in the Corporation's proxy statement and form of proxy for a stockholders' meeting, stockholders must provide notice as required by the regulations promulgated under the Exchange Act. Nothing contained in this Section 5 shall be deemed to affect any rights of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

Section 6. <u>Notice of Stockholders' Meetings</u>. Except as otherwise provided by law, notice stating the place (if any), day and hour of each meeting of the stockholders and the means of remote communication (if any) by which stockholders and proxy holders may be deemed to be present in person and vote at such meeting, and, in case of a special meeting, the purpose or purposes for which the meeting is called, shall be given not less than ten nor more than 60 days before the date of the meeting, in writing or by a form of electronic transmission in accordance with applicable law, by or at the direction of the Chair of the Board, the President and Chief Executive Officer, the Secretary, or the persons calling the meeting, to each stockholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be given when deposited in the U.S. mail and addressed to the stockholder at such stockholder's address as it appears on the records of the Corporation, with postage thereon prepaid.

Section 7. <u>Fixing Record Date</u>.

(a) In order that the Corporation may determine the stockholders entitled to notice of any meeting of stockholders or any adjourned meeting, the Board may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board, and which record date shall, unless otherwise required by law, not be more than 60 nor less than 10 days before the date of such meeting. If the Board so fixes a date, such date shall also be the record date for determining the stockholders entitled to vote at such meeting unless the Board determines, at the time it fixes such record date, that a later date on or before the date of the meeting shall be the date for making such determination. If no record date is fixed by the Board, the record date for determining stockholders entitled to notice of and to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjourned meeting; provided, however, that the Board may fix a new record date for the determination of stockholders entitled to vote at the adjourned meeting, and in such case shall also fix as the record date for stockholders entitled to notice of such adjourned meeting the same or an earlier date as that fixed for determination of stockholders entitled to vote in accordance herewith at the adjourned meeting.

(b) In order that the Corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board, and which record date shall not be more than 60 days prior to such action. If no such record date is fixed, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the Board adopts the resolution relating thereto.

(c) Unless otherwise restricted by the Certificate of Incorporation, in order that the Corporation may determine the stockholders entitled to express consent to corporate action in writing without a meeting, the Board may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board, and which record date shall not be more than 10 days after the date upon which the resolution fixing the record date is adopted by the Board. Any stockholder of record seeking to have stockholders express consent to corporate action in writing without a meeting shall, by written notice to the Secretary of the Corporation, request that the Board fix a record date. The Board shall promptly, but in all events within 10 days after the date upon which such request is received, adopt a resolution fixing the record date (unless a record date has previously been fixed by the Board pursuant to the first sentence of this Section 7(c)). If no record date has been fixed by the Board pursuant to the first sentence of this Section 7(c) or otherwise within 10 days after the date upon which such request is received, the record date for determining stockholders entitled to express consent to corporate action in writing without a meeting, when no prior action of the Board is required by law, shall be the first date after the expiration of such 10-day time period following the date on which a signed written consent setting forth the action taken or proposed to be taken was delivered to the Corporation. If no record date has been fixed by the Board pursuant to the first sentence of this Section 7(c), the record date for determining stockholders entitled to express consent to corporate action in writing without a meeting, if prior action by the Board is required by law, shall be at the close of business on the day on which the Board adopts the resolution taking such prior action.

(d) In the event of the delivery, to the Corporation of any written consent or consents to take corporate action and/or any related revocation or revocations, the Corporation shall engage independent inspectors of elections for the purpose of performing promptly a ministerial review of the validity of the consents and revocations. For the purpose of permitting the inspectors to perform such review, no action by written consent and without a meeting shall be effective until such inspectors have completed their review, determined that the requisite number of valid and unrevoked consents delivered to the Corporation in accordance with the DGCL have been obtained to authorize or take the action specified in the consents, and certified such determination for entry in the records of the Corporation kept for the purpose of recording the proceedings of meetings of stockholders. Nothing contained in this Section 7 shall in any way be construed to suggest or imply that the Board or any stockholder shall not be entitled to contest the validity of any consent or revocation thereof, whether before or after such certification by the independent inspectors, or to take any other action (including, without limitation, the commencement, prosecution or defense of any litigation with respect thereto, and the seeking of injunctive relief in such litigation).

Section 8. Voting Lists. The Corporation shall prepare, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at said meeting of stockholders (provided, however, that if the record date for determining the stockholders entitled to vote is less than 10 days before the date of the meeting, the list shall reflect the stockholders entitled to vote as of the 10th day before the meeting date), arranged by class and series of Capital Stock in alphabetical order within each series or class, and showing the address of each stockholder and the number of shares of such series or class of Capital Stock registered in the name of each stockholder. Nothing in this Section 8 shall require the Corporation to include electronic mail addresses or other electronic contact information on such list. Such list shall be open to the examination of any stockholder for any purpose germane to the meeting: (a) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of meeting; or (b) during ordinary business hours at the principal place of business of the Corporation. In the event that the Corporation determines to make the list available on an electronic network, the Corporation may take reasonable steps to ensure that such information is available only to stockholders of the Corporation. If the meeting is to be held at a place, the list shall also be produced and kept at the time and place of the meeting of stockholders during the whole time thereof, and may be inspected by any stockholder who is present at the meeting of stockholders. If the meeting is to be held solely by means of remote communication, then the list shall also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting. The stock ledger shall be the only evidence as to who are the stockholders entitled to examine such list or share ledgers or transfer books or to vote at the meeting of stockholders.

Section 9. Quorum and Voting.

(a) Holders of shares representing a majority of the voting power of the outstanding shares of Capital Stock entitled to vote at a meeting of the stockholders, represented in person or by proxy, shall constitute a quorum at such meeting of stockholders, except as otherwise provided by law, the Certificate of Incorporation, or these By-laws. The stockholders present in person or by proxy at a duly called or convened meeting, at which a quorum is present, may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum. If shares representing less than a majority of the voting power of the outstanding shares of Capital Stock are represented at a meeting of stockholders, shares with a majority of the voting power of the shares so represented or the chair of the meeting may adjourn the meeting from time to time without further notice.

(b) When a quorum is present at any meeting of stockholders, the affirmative vote of holders of shares having a majority of the voting power of the shares of Capital Stock present in person or represented by proxy at the meeting and entitled to vote on the subject matter shall be the act of the stockholders with respect to all matters other than the election of directors, unless otherwise required by law or by the Certificate of Incorporation.

(c) Unless otherwise required by law or by the Certificate of Incorporation, each director shall be elected by the affirmative vote of the majority of the votes cast (with abstentions and broker non-votes not counting as votes cast for or against a director's election) by stockholders at a meeting for the election of directors at which a quorum is present, except that, if the number of nominees for election at any such meeting exceeds the number of directors to be elected at such meeting, as determined by the Secretary of the Corporation as of the close of the notice periods set forth in Article II, Section 5, each director shall be elected by the affirmative vote of a plurality of the votes cast by stockholders at such meeting. If directors are to be elected by a plurality of the votes cast, stockholders shall not be permitted to vote against a nominee.

(d) A director who stands for re-election shall tender his or her resignation if he or she fails to receive the number of votes required for re-election. If an incumbent director fails to receive the required vote for re-election, the director shall tender an irrevocable resignation that will be effective upon the Board's acceptance of such resignation and the Nominating and Corporate Governance Committee will act on an expedited basis to make a recommendation on whether to accept the director's resignation and will submit such recommendation for prompt consideration by the Board. A director whose resignation is under consideration is expected to abstain from participating in any decision regarding that resignation. The Nominating and Corporate Governance Committee and the Board may consider any factors they deem relevant in deciding whether to accept or reject a director's resignation. If a director's resignation is accepted by the Board pursuant to these By-laws, or if a nominee for director is not elected and the nominee is not an incumbent director, then the Board may fill the resulting vacancy pursuant to the provisions of Article III, Section 4 or may decrease the size of the Board pursuant to the provisions of Article III, Section 2.

Section 10. Voting of Shares. At each meeting of the stockholders, each holder of Capital Stock that shall, at the time, possess voting powers, shall be entitled to vote, in person or by proxy, and shall have the number of votes provided by the Certificate of Incorporation or as otherwise required by law for each such share of Capital Stock registered in his or her name on the record date fixed for the purpose of determining stockholders entitled to vote at such meeting.

Section 11. Voting of Shares of Certain Holders.

(a) Persons holding Capital Stock in a fiduciary capacity shall be entitled to vote the shares so held. Persons whose Capital Stock is pledged shall be entitled to vote, unless in the transfer by the pledgor on the books of the Corporation such person has expressly empowered the pledgee to vote thereon, in which case only the pledgee, or such pledgee's proxy, may represent such Capital Stock and vote thereon.

(b) If shares of Capital Stock stand of record in the names of two or more persons, whether fiduciaries, members of a partnership, joint tenants, tenants in common, tenants by the entirety or otherwise, or if two or more persons have the same fiduciary relationship respecting the same shares, unless the Secretary of the Corporation is given written notice to the contrary and is furnished with a copy of the instrument or order appointing them or creating the relationship wherein it is so provided, their acts with respect to voting shall have the following effect:

(1) If only one votes, such person's act binds all;

(2) If more than one vote, the act of the majority so voting binds all;

(3) If more than one vote, but the vote is evenly split on any particular matter, each faction may vote the shares of Capital Stock in question proportionally, or any person voting the shares, or a beneficiary, if any, may apply to the Delaware Court of Chancery or such other court as may have jurisdiction to appoint an additional person to act with the persons so voting the shares, which shall then be voted as determined by a majority of such persons and the person appointed by such court. If the instrument so filed shows that any such tenancy is held in unequal interests, a majority or even split for the purpose of this subsection shall be a majority or even split in interest.

Section 12. Proxies. Every stockholder entitled to vote for directors, or on any other matter, shall have the right to do so either in person or by one or more persons authorized to act for such stockholder by proxy, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. A proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A proxy may be made irrevocable regardless of whether the interest with which it is coupled is an interest in the stock itself or an interest in the Corporation generally. A stockholder may revoke any proxy which is not irrevocable by attending the meeting and voting in person or by delivering to the Secretary of the Corporation a revocation of the proxy or an executed new proxy bearing a later date.

Section 13. Adjournments. Any meeting of the stockholders, annual or special, may be adjourned from time to time to reconvene at the same or some other place, if any, and notice need not be given of any such adjourned meeting if the time, place, if any, thereof and the means of remote communication, if any, are announced at the meeting at which the adjournment is taken. At the adjourned meeting, the Corporation may transact any business that might have been transacted at the original meeting. If the adjournment is for more than 30 days, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting. If after the adjournment a new record date is fixed for stockholders entitled to vote at the adjourned meeting, the Board shall fix a new record date for notice of the adjourned meeting and shall give notice of the adjourned meeting to each stockholder of record entitled to vote at the adjourned meeting as of the record date fixed for notice of the adjourned meeting.

Section 14. Inspectors at Meetings of Stockholders. In advance of any meeting of the stockholders, the Corporation shall appoint one or more inspectors, who may be employees of the Corporation, to act at the meeting or any adjournment thereof and make a written report thereof. The Corporation may designate one or more persons as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is able to act at a meeting, the person presiding at the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before entering upon the discharge of his or her duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his or her ability. The inspector or inspectors may appoint or retain other persons or entities to assist the inspector or inspectors in the performance of their duties. In determining the validity and counting of proxies and ballots cast at any meeting of stockholders, the inspector or inspectors may consider such information as is permitted by applicable law. No person who is a candidate for office at an election may serve as an inspector at such election. When executing the duties of inspector, the inspector or inspectors shall (a) ascertain the number of shares outstanding and the voting power of each; (b) determine the shares represented at the meeting and the validity of proxies and ballots; (c) count all votes and ballots; (d) determine and retain for a reasonable period a record of the disposition of any challenges made to any determination by the inspectors; and (e) certify their determination of the number of shares represented at the meeting and their count of all votes and ballots.

Section 15. Delivery to the Corporation. Whenever this Article II (or any other provision of these By-laws) requires one or more persons (including a record or beneficial owner of Capital Stock) to deliver a document or information to the Corporation or any officer, employee or agent thereof (including any notice, request, questionnaire, revocation, representation or other document or agreement), such document or information shall be in writing exclusively (and not in an electronic transmission) and shall be delivered exclusively by hand (including, without limitation, overnight courier service) or by certified or registered mail, return receipt requested, and the Corporation shall not be required to accept delivery of any document not in such written form or so delivered. For the avoidance of doubt, with respect to any notice from any record or beneficial owner of Capital Stock under the Certificate of Incorporation, these By-laws or the DGCL, to the fullest extent permitted by law, the Corporation expressly opts out of Section 116 of the DGCL.

ARTICLE III
DIRECTORS

Section 1. General Powers. Except as otherwise provided by the Certificate of Incorporation or the DGCL, the business and affairs of the Corporation shall be managed by or under the direction of the Board. In addition to powers expressly conferred upon them by these By-laws, the Board may exercise all such powers of the Corporation and do all such lawful acts and things that are not by law or by the Certificate of Incorporation directed or required to be exercised or done by the stockholders.

Section 2. Number and Tenure. The total number of directors that shall constitute the Board shall be fixed from time to time by a resolution of the Board, but the Board shall consist of no more than eight members. The directors shall serve staggered three-year terms. The directors shall be classified in respect to the time for which they shall severally hold office into three classes, each class to consist of one-third in number of the directors as near as may be. At each annual election of directors, the successors to the class of directors whose terms expire in that year shall be elected for three-year terms. One class of directors shall be elected by the stockholders at each annual meeting of stockholders, except as provided in Section 4 of this Article III, and each director elected shall hold office until his or her successor is duly elected and qualified.

Section 3. Attendance by Remote Communication. The Board may determine that any of its meetings shall not be held at any place, but may instead be held solely by means of remote communication by means of which all persons participating in the meeting can hear each other, and participation in a meeting by such means shall constitute presence in person at such meeting. The Board may also determine that a meeting shall be held at a particular place and allow directors that are unable to attend such meeting at such place to participate in such meeting by means of remote communication by means of which all persons participating in the meeting can hear each other, and participation in a meeting by such means shall constitute presence in person at such meeting.

Section 4. Vacancies. Except as otherwise provided by law, a vacancy in the office of any director, because of death, resignation, or otherwise, and any newly created directorship resulting from any increase in the total number of directors, shall be filled exclusively by the vote of a majority of the remaining directors, even though less than a quorum, and the director so elected shall hold office for a term expiring at the annual meeting of stockholders at which the term of office of the class to which he or she has been elected expires or until his or her successor is duly elected and qualified.

Section 5. Regular Meetings. Regular meetings of the Board may be held without notice immediately after the annual meeting of stockholders and at such other time and place as shall from time to time be determined by the Board. The Board shall hold at least four regular meetings in each year.

Section 6. Special Meetings. Special meetings of the Board may be called by or at the written request of the Chair of the Board, the President and Chief Executive Officer or any two directors. The person or persons authorized to call special meetings of the Board may fix the time and place, either within or outside of the State of Delaware, for holding such special meeting of the Board.

Section 7. Notice. Except as set forth in Section 5 of this Article III, notice of any regular or special meeting of the Board shall be given at least 24 hours prior thereto (if given personally or by electronic transmission) or three business days prior thereto (if given by U.S. mail). Such notice shall be in writing and shall be given personally or mailed or sent by electronic transmission to each director at such address as the director shall specify to the Secretary. If mailed, such notice shall be deemed to be given when deposited in the U.S. mail in a sealed envelope so addressed, with postage thereon prepaid. If notice is given by electronic transmission, such notice shall be deemed to be given when transmitted. Any director may waive notice of any meeting. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board need be specified in the notice or waiver of notice of such meeting. The attendance of a director at any meeting shall constitute a waiver of notice of such meeting, except where a director attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened.

Section 8. Quorum. A majority of the total number of directors constituting the Board shall constitute a quorum for the transaction of business at any meeting of the Board, *provided* that, if less than a quorum of the directors are present at said meeting, a majority of the directors present may adjourn the meeting from time to time without further notice.

Section 9. Manner of Acting. Except where otherwise provided in the Certificate of Incorporation, these By-laws or applicable law, the act of the majority of the directors present at a meeting at which a quorum is present shall be the act of the Board. Unless otherwise restricted by the Certificate of Incorporation or these By-laws, any action required or permitted to be taken at any meeting of the Board or of any committee thereof may be taken without a meeting, if all members of the Board or committee, as the case may be, consent thereto in writing or by electronic transmission, and such writing or writings or transmission or transmissions are filed with the minutes of proceedings of the Board or committee.

Section 10. Compensation. Directors employed by the Corporation shall not receive compensation for their services as directors or as members of any committee of the Board on which they serve. Directors not employed by the Corporation shall be paid reasonable compensation for services as directors and as members of any committee of the Board on which such directors serve, which compensation shall be fixed by resolution of the Board. Directors shall be reimbursed for reasonable expenses incurred in attending meetings of the Board and meetings of committees appointed by the Board. Nothing herein contained shall be construed to preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

Section 11. Chair of the Board. The Board shall annually elect one of its members to be its chair (the “Chair of the Board”) and shall fill any vacancy in the position of Chair of the Board at such time and in such manner as the Board shall determine. The Chair of the Board shall preside at all meetings of the stockholders and of the Board and he or she shall have such other duties, responsibilities and powers as may be assigned to him or her by the Board. The Chair of the Board may delegate to any qualified person authority to chair any meeting of the stockholders, either on a temporary or a permanent basis. In case of the inability or failure of the Chair of the Board to perform the duties of that office, the Lead Independent Director shall perform the duties of the Chair of the Board, unless otherwise determined by the Board. In case of the inability or failure of the Chair of the Board and the Lead Independent Director to perform the duties of the Chair of the Board, the President and Chief Executive Officer shall perform the duties of the Chair of the Board, unless otherwise determined by the Board.

ARTICLE IV
COMMITTEES

Section 1. Audit Committee.

(a) The Board at any regular or special meeting shall, by resolution of the Board, designate three or more independent directors to constitute an Audit Committee and appoint one of the directors so designated as the chair of the Audit Committee. Membership on the Audit Committee shall be restricted to those directors who are independent (within the meaning of applicable provisions of federal securities laws, applicable rules of the SEC and applicable exchange listing requirements) and who are free from any relationship that, in the opinion of the Board, would interfere with the exercise of independent judgment as a member of the Audit Committee. Vacancies on the Audit Committee may be filled by the Board. Each member of the Audit Committee shall hold office until such member's successor is duly elected, or until such member's death, resignation or removal from the Audit Committee by the Board, or such member ceases to be a director. Any member of the Audit Committee may be removed from the Audit Committee by resolution of the Board whenever in the Board's judgment (1) such Audit Committee member is no longer an independent director or free from any relationship prohibited by this Section 1 or (2) the best interests of the Corporation would be served by such member's removal from the Audit Committee. The compensation, if any, of members of the Audit Committee shall be established by resolution of the Board in accordance with Section 10 of Article III.

(b) The duties of the Audit Committee shall be as set forth in the Audit Committee Charter.

(c) The Audit Committee shall meet regularly, at least four times per year, at the call of its chair or any two members of the Audit Committee. The Audit Committee shall meet on such other occasions as required by the Audit Committee Charter. A majority of the members of the Audit Committee shall constitute a quorum for the transaction of business and the act of a majority of those present at a meeting at which a quorum is present shall constitute the act of the Audit Committee.

Section 2. Compensation and Development Committee.

(a) The Board at any regular or special meeting shall, by resolution of the Board, designate three or more independent directors to constitute a Compensation and Development Committee and appoint one of the directors so designated as the chair of the Compensation and Development Committee. Membership on the Compensation and Development Committee shall be restricted to those directors who are independent (within the meaning of applicable provisions of federal securities laws, applicable rules of the SEC and applicable exchange listing requirements) and who are free from any relationship that, in the opinion of the Board, would interfere with the exercise of independent judgment as a member of the Compensation and Development Committee. Vacancies on the Compensation and Development Committee may be filled by the Board. Each member of the Compensation and Development Committee shall hold office until such member's successor is duly elected, or until such member's death, resignation, or removal from the Compensation and Development Committee by the Board, or such member ceases to be a director. Any member of the Compensation and Development Committee may be removed from the Compensation and Development Committee by resolution of the Board whenever in the Board's judgment (1) such Compensation and Development Committee member is no longer an independent director or free from any relationship prohibited by this Section 2 or (2) the best interests of the Corporation would be served by such member's removal from the Compensation and Development Committee. The compensation, if any, of members of the Compensation and Development Committee shall be established by resolution of the Board in accordance with Section 10 of Article III.

(b) The duties of the Compensation and Development Committee shall be as set forth in the Compensation and Development Committee Charter.

(c) The Compensation and Development Committee shall meet, at least two times per year, at the call of its chair or any two members of the Compensation and Development Committee. A majority of the members of the Compensation and Development Committee shall constitute a quorum and an act of the majority of those present at a meeting at which a quorum is present shall constitute the act of the Compensation and Development Committee.

Section 3. Nominating and Corporate Governance Committee.

(a) The Board at any regular or special meeting shall, by resolution of the Board, designate three or more independent directors to constitute a Nominating and Corporate Governance Committee and appoint one of the directors so designated as the chair of the Nominating and Corporate Governance Committee. Membership on the Nominating and Corporate Governance Committee shall be restricted to those directors who are independent (within the meaning of applicable provisions of federal securities laws, applicable rules of the SEC and applicable exchange listing requirements) and who are free from any relationship that, in the opinion of the Board, would interfere with the exercise of independent judgment as a member of the Nominating and Corporate Governance Committee. Vacancies on the Nominating and Corporate Governance Committee may be filled by the Board. Each member of the Nominating and Corporate Governance Committee shall hold office until such member's successor is duly elected, or until such member's death, resignation, or removal from the Nominating and Corporate Governance Committee by the Board, or until such member ceases to be a director. Any member of the Nominating Committee may be removed by resolution of the Board whenever in the Board's judgment (1) such Nominating and Corporate Governance Committee member is no longer an independent director or free from any relationship prohibited by this Section 3 or (2) the best interests of the Corporation would be served by such member's removal from the Nominating and Corporate Governance Committee. The compensation, if any, of members of the Nominating and Corporate Governance Committee shall be established by resolution of the Board in accordance with Section 10 of Article III.

(b) The duties of the Nominating and Corporate Governance Committee shall be as set forth in the Nominating and Corporate Governance Committee Charter.

(c) The Nominating and Corporate Governance Committee shall meet, at least two times per year, at the call of its chair or any two members of the Nominating and Corporate Governance Committee. A majority of the members of the Nominating and Corporate Governance Committee shall constitute a quorum and an act of the majority of those present at a meeting at which a quorum is present shall constitute the act of the Nominating and Corporate Governance Committee.

(d) Nothing in these By-laws is intended to prevent any individual director from making a recommendation of a person to be a director of the Corporation either to the Nominating and Corporate Governance Committee or to the Board.

Section 4. Additional Committees. The Board may, by resolution of the Board, from time to time create and appoint such committees in addition to the Audit, Compensation and Development, and Nominating and Corporate Governance Committees as it deems desirable. Each additional committee shall bear such designation, shall have such powers, and shall perform such duties, not inconsistent with these By-laws, law or the Certificate of Incorporation, as may be assigned to it by the Board; provided that no such additional committee may exercise the powers of the Board in the management of the business and affairs of the Corporation except such as shall be expressly delegated to it. The Board shall have the power to change the members of any such additional committee at any time, to fill vacancies, and to discharge any such additional committee at any time. The compensation, if any, of members of any such additional committee shall be established by resolution of the Board in accordance with Section 10 of Article III. A majority of the members of any such committee shall constitute a quorum for the transaction of business and the act of a majority of those present at a meeting at which a quorum is present shall constitute the act of such additional committee.

ARTICLE V
OFFICERS

Section 1. Generally. The officers of the Corporation shall be elected by the Board and shall consist of a President and Chief Executive Officer and a Secretary. The Board, in its discretion, may also choose any or all of the following: one or more Vice Presidents (who may be given particular designations with respect to authority, function, or seniority), a Treasurer, one or more Assistant Treasurers, one or more Assistant Secretaries, a Controller and such other officers as the Board may from time to time determine. Notwithstanding the foregoing, by specific action the Board may authorize the President and Chief Executive Officer to appoint any person to any office other than President and Chief Executive Officer. Any number of offices may be held by the same person unless specifically prohibited by law. Any of the offices may be left vacant from time to time as the Board may determine. In the case of the absence or disability of any officer of the Corporation or for any other reason deemed sufficient by the Board, the Board may delegate the powers or duties of any officer to any other officer or employee.

Section 2. Election and Term of Office. The officers of the Corporation shall be elected annually by the Board at the first meeting of the Board held after each annual meeting of stockholders.

If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as conveniently may be. Each officer shall hold office until his or her successor shall have been duly elected and shall have qualified or until his or her death, resignation or removal in the manner hereinafter provided.

Section 3. Removal. Any officer may be removed, either with or without cause, at any time by the Board, the Chair of the Board or the President and Chief Executive Officer, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Election or appointment of an officer or agent shall not of itself create contract rights.

Section 4. Resignations. Any officer may resign at any time by giving written notice to the Board, the Chair of the Board or the President and Chief Executive Officer. Such resignation shall take effect when received by the person or persons to whom such notice is given, unless such resignation specifies that it shall become effective at a later time or upon the happening of an event, in which event the resignation shall take effect at such later time or upon the happening of such event. Unless otherwise specified in such notice, the acceptance of such resignation shall not be necessary to make it effective.

Section 5. Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or otherwise, may be filled by the Board (or, except with respect to the office of the President and Chief Executive Officer, the Chair of the Board or the President and Chief Executive Officer) for the unexpired portion of the term, and new offices may be created and filled by the Board, the Chair of the Board or the President and Chief Executive Officer.

Section 6. President and Chief Executive Officer. The President and Chief Executive Officer shall be responsible for the general management and direction of the business and affairs of the Corporation, subject to the direction of the Board. The President and Chief Executive Officer shall perform other duties commonly incident to the office and shall also perform such other duties and have such other powers as the Board shall designate from time to time.

Section 7. Execution of Documents and Action with Respect to Securities of Other Entities. Each of the Chair of the Board and the President and Chief Executive Officer shall have and is hereby given, full power and authority, except as otherwise required by law or directed by the Board, to execute, on behalf of the Corporation, all duly authorized contracts, agreements, deeds, conveyances or other obligations of the Corporation, applications, consents, proxies and other powers of attorney, and other documents and instruments, and to vote and otherwise act on behalf of the Corporation, in person or by proxy, at any meeting of stockholders or equityholders (or with respect to any action of such stockholders or equityholders) of any other entity in which the Corporation may hold securities and otherwise to exercise any and all rights and powers which the Corporation may possess by reason of its ownership of securities of such other entity. In addition, each of the Chair of the Board and the President and Chief Executive Officer may delegate to other officers, employees and agents of the Corporation the power and authority to take any action that the Chair of the Board or the President and Chief Executive Officer is authorized to take under this Section 7, with such limitations as the Chair of the Board or the President and Chief Executive Officer, as the case may be, may specify; such authority so delegated by the Chair of the Board or the President and Chief Executive Officer shall not be re-delegated by the person to whom such execution authority has been delegated.

Section 8. Vice President. Each Vice President, however titled, shall perform such duties and services and shall have such authority and responsibilities as shall be assigned to or required from time to time by the Board or the President and Chief Executive Officer.

Section 9. Secretary and Assistant Secretaries.

(a) The Secretary shall attend all meetings of the stockholders and all meetings of the Board and record all proceedings of the meetings of the stockholders and of the Board and shall perform like duties for the standing committees when requested by the Board. The Secretary shall give, or cause to be given, notice of all meetings of the stockholders and of the Board. The Secretary shall perform such other duties as may be prescribed by the Board. The Secretary shall have charge of the corporate seal and authority to affix the seal to any instrument. The Secretary or any Assistant Secretary may attest to the corporate seal by handwritten or facsimile signature. The Secretary shall keep and account for all the corporate books and records of the Corporation. The Secretary shall perform other duties commonly incident to the office and shall also perform such other duties and have such other powers as the Board or the President and Chief Executive Officer shall designate from time to time.

(b) Assistant Secretaries, in the order of their seniority, shall assist the Secretary and, if the Secretary is unavailable or fails to act, perform the duties and exercise the authorities of the Secretary.

Section 10. Treasurer and Assistant Treasurers.

(a) The Treasurer, or such Vice President who is designated by the Board or the President and Chief Executive Officer to perform the duties of the Treasurer, shall have the custody of the funds and securities belonging to the Corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Treasurer or such Vice President with the prior approval of the Board, the Chair of the Board or the President and Chief Executive Officer. The Treasurer or such Vice President shall disburse the funds and pledge the credit of the Corporation as may be authorized and shall render an account of all transactions by the Treasurer or such Vice President. The Treasurer or such Vice President shall perform other duties commonly incident to the office and shall also perform such other duties and have such other powers as the Board, the President and Chief Executive Officer or the Chief Financial Officer shall designate from time to time.

(b) Assistant Treasurers, in the order of their seniority, shall assist the Treasurer and, if the Treasurer is unable or fails to act, perform the duties and exercise the powers of the Treasurer.

Section 11. Controller. The Controller, or such Vice President who is designated by the Board or the President and Chief Executive Officer to perform the duties of the Controller, shall maintain adequate records of all assets, liabilities and financial transactions of the Corporation. The Controller or such Vice President shall perform other duties commonly incident to the office and shall also perform such other duties and have such other powers as the Board, the President and Chief Executive Officer or the Chief Financial Officer shall designate from time to time.

Section 12. Duties of Officers May Be Delegated. In case any officer is absent, or any other reason that the Board may deem sufficient, the Board or the President and Chief Executive Officer may delegate for the time being the powers or duties of such officer to any other officer or director.

ARTICLE VI
SHARES OF CAPITAL STOCK AND THEIR TRANSFER

Section 1. Shares. Except as otherwise provided in a resolution approved by the Board or as may be required by applicable law, all shares of Capital Stock shall be uncertificated shares beginning on January 1, 2008. Notwithstanding the foregoing, shares represented by a certificate issued and outstanding prior to January 1, 2008, shall remain represented by a certificate until such certificate is surrendered to the Corporation by the holder of record. Shares shall be transferable only on the books of the Corporation by the holder of record thereof in person or such person’s successor or assignee, or by such person’s attorney lawfully constituted in writing, in accordance with the customary procedures for transferring shares. In the case of shares of Capital Stock represented by certificates, such certificates representing shares of Capital Stock shall be in such form as may be determined from time to time by the Board, subject to applicable legal requirements. Such certificates shall be numbered and their issuance recorded in the books of the Corporation, and such certificate shall exhibit the holder’s name and the number of shares and shall be signed by, or in the name of the Corporation by, any two duly authorized officers. For such purposes, each of the Chair of the Board, the President and Chief Executive Officer, the Secretary, any Assistant Secretary, the Treasurer or any Assistant Treasurer of the Corporation shall be deemed to be a duly authorized officer. Any or all of the signatures and the seal of the Corporation, if any, upon such certificates may be facsimiles, engraved or printed. All certificates for shares of Capital Stock of the same class and series shall be consecutively numbered. The name of the person owning the shares of Capital Stock represented thereby with the number of shares and date of issue shall be entered on the books of the Corporation. All certificates surrendered to the Corporation for transfer shall be cancelled and no new certificate or uncertificated shares shall be issued until the former certificate for a like number of shares shall have been surrendered and cancelled, except that in the case of a lost, destroyed or mutilated certificate, a new certificate or uncertificated shares may be issued therefore upon such terms and indemnity to the Corporation as the Corporation may prescribe. In the case of shares of Capital Stock issued in uncertificated form, within a reasonable time after the issuance or transfer of uncertificated shares of Capital Stock, the Corporation shall send to the holder of record of such uncertificated shares a written notice containing the information required to be set forth or stated on certificates representing shares pursuant to applicable law.

Section 2. Transfer. Transfers of shares of Capital Stock shall be made on the books of the Corporation:

(a) in the case of certificated shares, only by the person named in the certificates evidencing such shares of Capital Stock or such person's successor or assignee, or by such person's attorney-in-fact lawfully constituted in writing, and upon surrender of such certificates and delivery to the Corporation of proper evidence of succession, assignment or other authority, to transfer, or

(b) in the case of uncertificated shares, only by the holder of record of uncertificated shares or such person's successor or assignee, or by such person's attorney-in-fact lawfully constituted in writing or upon receipt of proper transfer instructions from the holder of record of such uncertificated shares and delivery to the Corporation of proper evidence of succession, assignment or other authority, to transfer.

Section 3. Holder of Record. The Corporation shall be entitled to treat the holder of record of any share or shares of Capital Stock as the holder in fact thereof and, accordingly, shall not be bound to recognize any equitable or other claim to, or interest in, such share or shares on the part of any other person, whether or not the Corporation shall have express or other notice thereof, save as expressly provided by the laws of the State of Delaware.

Section 4. Transfer Agent and Registrars. The Board may from time to time appoint a transfer agent and registrar in one or more cities, may require all certificates evidencing shares of Capital Stock, if any, or written notices or statements related to uncertificated shares of Capital Stock to bear the signatures of a transfer agent or registrar, and may provide that such certificates, if any, or uncertificated shares shall be transferable in more than one city.

Section 5. Lost, Stolen or Destroyed Certificates. The Board may authorize the Corporation, including any transfer agents or registrars of the Corporation, to issue and register, respectively, uncertificated shares, or, upon request, new certificates, in place of any certificates alleged to have been lost, stolen or destroyed, and in its discretion and as a condition precedent to the issuance thereof, may prescribe such terms and conditions as it deems expedient, and may require such indemnities as it deems necessary to protect the Corporation and said transfer agent and registrars.

ARTICLE VII
FISCAL YEAR

The fiscal year of the Corporation will end on December 31 of each year or such other date as may be fixed by the Board.

ARTICLE VIII
DIVIDENDS

Dividends on the Capital Stock may be declared by the Board at any meeting, regular or special, pursuant to law and to the provisions of the Certificate of Incorporation.

ARTICLE IX
INDEMNIFICATION

Section 1. General. The Corporation (a) shall indemnify 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 (other than an action by or in the right of the Corporation, which is specifically addressed in Section 2 of this Article IX) by reason of the fact that he or she is or was a director or an officer of the Corporation, or is or was serving at the request of the Corporation as a director or an officer of another corporation, partnership, joint venture, trust or other enterprise, to the full extent authorized or permitted by law, as now or hereafter in effect, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him or her in connection with such action, suit or proceeding if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful, and (b) may indemnify, if the Board determines such indemnification is appropriate, 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 (other than an action by or in the right of the Corporation, which is specifically addressed in Section 2 of this Article IX) by reason of the fact that he or she is or was an employee or agent of the Corporation, or is or was serving at the request of the Corporation as an employee or agent of another corporation, partnership, joint venture, trust or other enterprise, to the full extent authorized or permitted by law, as now or hereafter in effect, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him or her in connection with such action, suit or proceeding if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement or conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he or she reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his or her conduct was unlawful.

Section 2. Derivative Actions. The Corporation (a) shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he or she is or was a director or an officer of the Corporation, or is or was serving at the request of the Corporation as a director or an officer of another corporation, partnership, joint venture, trust or other enterprise, to the full extent authorized or permitted by law, as now or hereafter in effect, against expenses (including attorneys' fees) actually and reasonably incurred by him or her in connection with the defense or settlement of such action or suit if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Corporation, and (b) may indemnify, if the Board determines such indemnification is appropriate, any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he or she is or was an employee or an agent of the Corporation, or is or was serving at the request of the Corporation as an employee or an agent of another corporation, partnership, joint venture, trust or other enterprise, to the full extent authorized or permitted by law, as now or hereafter in effect, against expenses (including attorneys' fees) actually and reasonably incurred by him or her in connection with the defense or settlement of such action or suit if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Corporation; provided, however, that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court of Chancery of the State of Delaware or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

Section 3. Successful Defense. To the extent that a present or former director or officer of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Sections 1 and 2 of this Article IX, or in defense of any claim, issue or matter therein, he or she shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him or her in connection therewith.

Section 4. Proceedings Initiated by any Person. Notwithstanding anything to the contrary contained in Sections 1 and 2 of this Article IX, except for proceedings to enforce rights to indemnification, the Corporation shall not be obligated to indemnify any person in connection with a proceeding (or part thereof) initiated by such person unless such proceeding (or part thereof) was authorized in advance, or consented to, by the Board.

Section 5. Procedure. Any indemnification under Sections 1 and 2 of this Article IX (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the present or former director, officer, employee or agent is proper in the circumstances because such person has met the applicable standard of conduct set forth in Sections 1 and 2 of this Article IX. Such determination shall be made, with respect to a person who is a director or officer at the time of such determination,

(a) by a majority vote of the directors who are not parties to such action, suit or proceeding even though less than a quorum, or

(b) by a committee of such directors designated by majority vote of such directors, even though less than a quorum, or

(c) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion, or

(d) by the stockholders of the Corporation.

Section 6. Advancement of Expenses. Expenses (including attorneys' fees) incurred by a current or former officer or a current or former director in defending any civil, criminal, administrative or investigative action, suit or proceeding shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such current or former director or current or former officer to repay such amount if it shall ultimately be determined that such person is not entitled to be indemnified by the Corporation pursuant to this Article IX or as otherwise authorized by law. Such expenses (including attorneys' fees) incurred by other employees and agents may be so paid upon such terms and conditions, if any, as the Corporation deems appropriate.

Section 7. Rights Not Exclusive. The indemnification and advancement of expenses provided by, or granted pursuant to, the other sections of this Article IX shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his or her official capacity and as to action in another capacity while holding such office.

Section 8. Insurance. The Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against any liability asserted against him or her and incurred by him or her in any such capacity, or arising out of his or her status as such, whether or not the Corporation would have the power to indemnify him or her against such liability under the provisions of the DGCL.

Section 9. Definition of "Corporation". For purposes of this Article IX, references to "the Corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, employees or agents so that any person who is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under the provisions of this Article IX with respect to the resulting or surviving corporation as such person would have with respect to such constituent corporation if its separate existence had continued.

Section 10. Certain Other Definitions. For purposes of this Article IX, references to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on a person with respect to any employee benefit plan; and references to "serving at the request of the Corporation" shall include any service as a director, officer, employee or agent of the Corporation that imposes duties on, or involves service by, such director, officer, employee or agent with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner such person reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Corporation," as referred to in this Article IX. For purposes of this Article IX, the term "officer" shall refer only to an officer of the Corporation appointed as such pursuant to the provisions of Article V (or, with respect to any person serving as an officer of another enterprise, a person who has been appointed as such pursuant to the organizational documents of such enterprise) and shall not refer to any employee of the Corporation or any other enterprise who has not been so appointed, regardless of whether the person has been give or uses a title, such as "vice president," that might connote that such person is an officer.

Section 11. Continuation of Rights. The indemnification and advancement of expenses provided by, or granted pursuant to, this Article IX shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

Section 12. Repeal or Modification. Any repeal or modification of this Article IX shall not adversely affect any rights to indemnification and to advancement of expenses that any person may have at the time of such repeal or modification with respect to any acts or omissions occurring prior to such repeal or modification.

Section 13. Amendments to DGCL. If the DGCL is amended hereafter to broaden the rights of those seeking indemnification or advancement of expenses, then such rights shall be extended to such persons to the fullest extent authorized by the DGCL, as so amended, without further action by either the Board or the stockholders of the Corporation.

ARTICLE X
WAIVER OF NOTICE

Whenever any notice is required to be given by law or under the provisions of these By-laws or under the provisions of the Certificate of Incorporation, a waiver thereof in writing, signed by the person or persons entitled to such notice, or a waiver by electronic transmission by the person entitled to notice, whether before or after the time of the event for which notice is to be given, shall be deemed equivalent to the giving of such notice. Attendance by a person at a meeting shall constitute a waiver of notice of such meeting, except where the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders, directors or members of a committee of directors need be specified in any written waiver of notice or any waiver by electronic transmission unless so required by the Certificate of Incorporation or By-laws.

ARTICLE XI
CORPORATE SEAL

The corporate seal shall have inscribed thereon the name of the Corporation, the year of its organization and the words "Corporate Seal, Delaware." The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced otherwise.

ARTICLE XII
FORUM

Unless the Corporation consents in writing to the selection of an alternative forum, the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of the Corporation; (ii) any action asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee of the Corporation to the Corporation or the Corporation's stockholders; (iii) any action asserting a claim against the Corporation or any director or officer or other employee of the Corporation arising pursuant to any provision of the DGCL, the Certificate of Incorporation or these By-laws; or (iv) any action asserting a claim against the Corporation or any director or officer or other employee of the Corporation governed by the internal affairs doctrine shall be the Court of Chancery of the State of Delaware (or, if the Court of Chancery does not have jurisdiction, another state court located within the State of Delaware or, if no state court within the State of Delaware has jurisdiction, the federal district court for the District of Delaware, in all cases subject to the applicable court having personal jurisdiction over the indispensable parties named as defendants). To the fullest extent permitted by law, any person or entity purchasing or otherwise acquiring or holding any interest in shares of Capital Stock shall be deemed to have notice of and consented to the provisions of this Article XII. Notwithstanding anything otherwise to the contrary herein, the provisions of this Article XII will not apply to suits brought to enforce a duty or liability created by the federal securities laws or any other claim for which the federal courts have exclusive jurisdiction.

ARTICLE XIII
SEVERABILITY OF PROVISIONS

If any provision of these By-laws, or the application thereof to any person or circumstances, is held invalid, the remainder of these By-laws, and the application of such provision to other persons or circumstances, shall not be affected thereby.

ARTICLE XIV
AMENDMENTS

In furtherance and not in limitation of the powers conferred by law, the Board is expressly authorized to adopt, amend or repeal the By-laws of the Corporation.

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: October 30, 2019

/s/ F. Quinn Stepan, Jr.
F. Quinn Stepan, Jr.
Chairman, 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, Luis E. Rojo, 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: October 30, 2019

/s/ Luis E. Rojo
Luis E. Rojo
Vice President and Chief Financial Officer

Exhibit 32

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 September 30, 2019, 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: October 30, 2019

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

/s/ Luis E. Rojo
Name: Luis E. Rojo
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.