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 MARCH 31, 2023

☐ **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)

1101 Skokie Boulevard, Suite 500, Northbrook, Illinois 60062
(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 the 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 April 27, 2023
Common Stock, $1 par value	22,341,234 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 March 31, 2023	Three Months Ended March 31, 2022
Net Sales	$ 651,436	$ 675,276
Cost of Sales	577,876	566,057
Gross Profit	73,560	109,219
Operating Expenses:		
Selling	13,067	15,277
Administrative	22,639	21,572
Research, development and technical services	15,138	16,473
Deferred compensation (income) expense	1,502	(7,501)
	52,346	45,821
Business restructuring expenses	(157)	(52)
Operating Income	21,057	63,346
Other Income (Expense):		
Interest, net	(2,822)	(2,306)
Other, net (Note 15)	1,668	(1,650)
	(1,154)	(3,956)
Income Before Provision for Income Taxes	19,903	59,390
Provision for Income Taxes	3,761	14,581
Net Income	16,142	44,809
Net Income Per Common Share (Note 10):		
Basic	$ 0.71	$ 1.96
Diluted	$ 0.70	$ 1.93
Shares Used to Compute Net Income Per Common Share (Note 10):		
Basic	22,757	22,896
Diluted	22,994	23,167

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 March 31, 2023	2022
Net Income	$ 16,142	$ 44,809
Other Comprehensive Income:		
Foreign currency translation adjustments (Note 11)	18,423	9,829
Defined benefit pension adjustments, net of tax (Note 11)	58	436
Derivative instrument activity, net of tax (Note 11)	(1,517)	2,788
Total Other Comprehensive Income	16,964	13,053
Comprehensive Income	$ 33,106	$ 57,862

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)	March 31, 2023	December 31, 2022
Assets		
Current Assets:		
Cash and cash equivalents	$ 126,956	$ 173,750
Receivables, net	470,275	436,914
Inventories (Note 6)	368,372	402,531
Other current assets	40,921	31,607
Total current assets	1,006,524	1,044,802
Property, Plant and Equipment:		
Cost	2,443,605	2,370,552
Less: Accumulated depreciation	(1,323,476)	(1,297,255)
Property, plant and equipment, net	1,120,129	1,073,297
Goodwill, net	97,348	95,922
Other intangible assets, net	57,402	58,026
Long-term investments (Note 3)	23,254	23,294
Operating lease assets (Note 7)	65,995	62,540
Other non-current assets	75,285	75,291
Total assets	$ 2,445,937	$ 2,433,172
Liabilities and Equity		
Current Liabilities:		
Current maturities of long-term debt (Note 14)	$ 257,298	$ 132,111
Accounts payable	289,126	375,726
Accrued liabilities	116,320	162,812
Total current liabilities	662,744	670,649
Deferred income taxes	9,469	10,179
Long-term debt, less current maturities (Note 14)	453,742	455,029
Non-current operating lease liabilities (Note 7)	53,713	50,559
Other non-current liabilities	76,356	80,691
Commitments and Contingencies (Note 8)		
Equity:		
Common stock, $1 par value; authorized 60,000,000 shares; 26,957,952 issued shares in 2023 and 26,840,843 issued shares in 2022	26,958	26,841
Additional paid-in capital	239,585	237,202
Accumulated other comprehensive loss (Note 11)	(150,548)	(167,512)
Retained earnings	1,258,112	1,250,130
Less: Common treasury stock, at cost, 4,625,811 shares in 2023 and 4,605,858 shares in 2022	(184,194)	(180,596)
Total equity	1,189,913	1,166,065
Total liabilities and equity	$ 2,445,937	$ 2,433,172

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)	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
Cash Flows From Operating Activities		
Net income	$ 16,142	$ 44,809
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	25,542	22,915
Deferred compensation	1,502	(7,501)
Realized and unrealized (gains) losses on long-term investments	(1,516)	2,487
Stock-based compensation	999	2,957
Deferred income taxes	(660)	(2,545)
Other non-cash items	36	1,031
Changes in assets and liabilities:		
Receivables, net	(40,420)	(80,344)
Inventories	38,265	481
Other current assets	(9,222)	(3,915)
Accounts payable and accrued liabilities	(98,523)	(1,183)
Pension liabilities	(531)	(599)
Environmental and legal liabilities	(3,464)	56
Deferred revenues	(208)	421
Net Cash Used In By Operating Activities	(72,058)	(20,930)
Cash Flows From Investing Activities		
Expenditures for property, plant and equipment	(92,158)	(60,288)
Other, net	1,817	3,156
Net Cash Used In Investing Activities	(90,341)	(57,132)
Cash Flows From Financing Activities		
Revolving debt and bank overdrafts, net (Note 14)	123,847	98,636
Other debt borrowings (Note 14)	—	75,000
Dividends paid	(8,160)	(7,513)
Company stock repurchased	—	(9,935)
Stock option exercises	1,514	114
Other, net	(3,665)	(1,469)
Net Cash Provided By Financing Activities	113,536	154,833
Effect of Exchange Rate Changes on Cash	2,069	84
Net Increase (Decrease) in Cash and Cash Equivalents	(46,794)	76,855
Cash and Cash Equivalents at Beginning of Period	173,750	159,186
Cash and Cash Equivalents at End of Period	$ 126,956	$ 236,041
Supplemental Cash Flow Information		
Cash payments of income taxes, net of refunds/payments	$ 15,518	$ 8,312
Cash payments of interest	$ 6,007	$ 2,500

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 March 31, 2023, its results of operations for the three months ended March 31, 2023 and 2022 and cash flows for the three months ended March 31, 2023 and 2022, 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 Annual Report on Form 10-K for the year ended December 31, 2022 (2022 Annual Report on Form 10-K).

2. RECONCILIATIONS OF EQUITY

Below are reconciliations of total equity for the three months ended March 31, 2023 and 2022:

(In thousands, except share and per share amounts)	*Total*	*Common Stock*	*Additional Paid-in Capital*	*Common Treasury Stock*	*Accumulated Other Comprehensive Income (Loss)*	*Retained Earnings*
Balance, December 31, 2022	$ 1,166,065	$ 26,841	$ 237,202	$ (180,596)	$ (167,512)	$ 1,250,130
Issuance of 25,981 shares of common stock under incentive compensation plan	1,514	26	1,488	—	—	—
Stock-based and deferred compensation	(2,612)	91	895	(3,598)	—	—
Net income	16,142	—	—	—	—	16,142
Other comprehensive income	16,964	—	—	—	16,964	—
Cash dividends paid:						
Common stock ($0.365 per share)	(8,160)	—	—	—	—	(8,160)
Balance, March 31, 2023	$ 1,189,913	$ 26,958	$ 239,585	$ (184,194)	$ (150,548)	$ 1,258,112

(In thousands, except share and per share amounts)	*Total*	*Common Stock*	*Additional Paid-in Capital*	*Common Treasury Stock*	*Accumulated Other Comprehensive Income (Loss)*	*Retained Earnings*
Balance, December 31, 2021	$ 1,074,193	$ 26,761	$ 220,820	$ (153,702)	$ (153,236)	$ 1,133,550
Issuance of 1,514 shares of common stock under incentive compensation plan	114	2	112	—	—	—
Purchase of 98,206 shares of common stock	(9,935)	—	—	(9,935)	—	—
Stock-based and deferred compensation	2,017	51	3,568	(1,602)	—	—
Net income	44,809	—	—	—	—	44,809
Other comprehensive income	13,053	—	—	—	13,053	—
Cash dividends paid:						
Common stock ($0.335 per share)	(7,513)	—	—	—	—	(7,513)
Balance, March 31, 2022	$ 1,116,738	$ 26,814	$ 224,500	$ (165,239)	$ (140,183)	$ 1,170,846

3. FAIR VALUE MEASUREMENTS

Derivative assets and liabilities include the foreign currency exchange and interest rate swap contracts discussed in Note 4, *Derivative Instruments*, of the notes to the Company's condensed consolidated financial statements (included in Item 1 of this Form 10-Q). Fair value and carrying value were the same because the contracts were recorded at fair value. The fair values of the foreign currency contracts were calculated as the difference between the applicable forward foreign exchange rates at the reporting date and the contracted foreign exchange rates multiplied by the contracted notional amounts. The fair value of the interest rate swap was calculated as the difference between the contracted swap rate and the floating interest rate multiplied by the present value of the notional amount of the contract.

At March 31, 2023, and December 31, 2022, 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 $722,000 and $686,000 as of March 31, 2023 and December 31, 2022, respectively):

(In thousands)	March 31, 2023	December 31, 2022
Fair value	$ 671,009	$ 541,029
Carrying value	711,762	587,826

The following tables present financial assets and liabilities, excluding cash and cash equivalents, measured on a recurring basis at fair value as of March 31, 2023, and December 31, 2022, and the level within the fair value hierarchy in which the fair value measurements fall:

(In thousands)	March 31, 2023	Level 1	Level 2	Level 3
Mutual fund assets	$ 23,254	$ 23,254	$ —	$ —
Derivative assets:				
Interest rate contracts	6,843	—	6,843	—
Foreign currency contracts	1,454	—	1,454	—
Total assets at fair value	$ 31,551	$ 23,254	$ 8,297	$ —
Derivative liabilities:				
Foreign currency contracts	$ 1,890	$ —	$ 1,890	$ —

(In thousands)	December 31, 2022	Level 1	Level 2	Level 3
Mutual fund assets	$ 23,294	$ 23,294	$ —	$ —
Derivative assets:				
Interest rate contracts	8,357	—	8,357	—
Foreign currency contracts	513	—	513	—
Total assets at fair value	$ 32,164	$ 23,294	$ 8,870	$ —
Derivative liabilities:				
Foreign currency contracts	$ 525	$ —	$ 525	$ —

4. DERIVATIVE INSTRUMENTS

At March 31, 2023, and December 31, 2022, the Company had open forward foreign currency exchange contracts, all with durations of one to six months, to buy or sell foreign currencies with U.S. dollar equivalent amounts of $87,656,000 and $56,746,000, respectively.

The Company is currently exposed to volatility in short-term interest rates and has mitigated certain portions of that risk by using an interest rate swap. The interest rate swap is recognized on the balance sheet as either an asset or a liability measured at fair value. At March 31, 2023, the Company held an interest rate swap contract with a notional value of $100,000,000 that was designated as a cash flow hedge. Period-to-period changes in the fair value of the interest rate swap are initially recognized as gains or losses in other comprehensive income. As the interest rate swap contract is settled, the corresponding gain or loss is reclassified out of accumulated other comprehensive income (AOCI) into earnings. The maturity date of the current interest swap contract is March 10, 2027, which is closely aligned with the June 24, 2027 maturity of the Company's revolving credit facility.

The fair values of the derivative instruments held by the Company on March 31, 2023, and December 31, 2022, are disclosed in Note 3, *Fair Value Measurements*, of the notes to the Company's condensed consolidated financial statements (included in Item 1 of this Form 10-Q). Derivative instrument gains and losses for the three months ended March 31, 2023 and 2022, were immaterial. For amounts reclassified out of AOCI into earnings for the three months ended March 31, 2023 and 2022, see Note 11, *Accumulated Other Comprehensive Income (Loss)*, of the notes to the Company's condensed consolidated financial statements (included in Item 1 of this Form 10-Q).

5. STOCK-BASED COMPENSATION

Compensation expense recorded for all stock options, performance shares, restricted stock units (RSUs) and stock appreciation rights (SARs) was as follows:

(In thousands)

Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
$ 999	$ 2,957

The decrease in stock-based compensation expense for the first quarter of 2023 compared to the same period a year ago was attributable to the Company's management lowering the assessment of performance targets for certain grants. In addition, during the first quarter of 2022, the Company accelerated vesting of certain equity grants for the Company's former Chief Executive Officer, who retired on April 25, 2022.

Unrecognized compensation costs for stock options, performance shares, RSUs and SARs were as follows:

(In thousands)	March 31, 2023	December 31, 2022
Stock options	$ 631	$ 692
Performance shares and RSUs	7,321	6,144
SARs	6,860	5,211

The change in unrecognized compensation costs for stock options, performance shares, RSUs and SARs primarily reflects the 2023 grants of:

	Shares
Stock options	2,777
Performance shares (at target) and RSUs	81,170
SARs	72,262

The unrecognized compensation costs at March 31, 2023, are expected to be recognized over weighted-average periods of 1.3 years for stock options, 2.0 years for performance shares and RSUs and 2.0 years for SARs.

6. INVENTORIES

The composition of inventories at March 31, 2023, and December 31, 2022, was as follows:

(In thousands)	March 31, 2023	December 31, 2022
Finished goods	$ 235,598	$ 250,373
Raw materials	132,774	152,158
Total inventories	$ 368,372	$ 402,531

7. LEASES

Lease cost is recognized in both the Cost of Sales and Operating Expenses sections of the Condensed Consolidated Statements of Income.

(In thousands)	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
Lease Cost		
Operating lease cost	$ 4,349	$ 4,108
Short-term lease cost	2,779	1,338
Variable lease cost	557	202
Total lease cost	$ 7,685	$ 5,648
Other Information		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flow from operating leases	$ 4,332	$ 4,075
Right-of-use assets obtained in exchange for new operating lease liabilities	6,545	2,819

The following table outlines the maturities of lease liabilities as of March 31, 2023.

(In thousands)	
Undiscounted Cash Flows:	
2023 (excluding the three months ended March 31, 2023)	$ 12,080
2024	11,424
2025	7,718
2026	5,968
2027	5,499
Subsequent to 2027	36,810
Total Undiscounted Cash Flows	$ 79,499
Less: Imputed interest	(12,411)
Present value	$ 67,088
Current operating lease liabilities [(1)]	13,375
Non-current operating lease liabilities	53,713
Total lease liabilities	$ 67,088

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

Weighted-average remaining lease term-operating leases	10 years
Weighted-average discount rate-operating leases	3.4 %

As of March 31, 2023 the Company had railcars leases, valued at approximately $3,865,000, that had not commenced. These leases will commence during the second and the third quarters of 2023 with lease terms ranging 5 year to 7 years.

8. 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 assessment, protection and remediation 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 government authorities as a potentially responsible party (PRP) at a number of sites where cleanup costs have been or may be incurred by the Company 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 and claims.

In determining the appropriate level of environmental reserves, the Company considers several factors such as information obtained from investigatory studies; changes in the scope of remediation; the interpretation, application and enforcement of laws and regulations; changes in the costs of remediation programs; the development of alternative cleanup technologies and methods; and the relative level of the Company's involvement at various sites for which the Company is allegedly associated. The level of annual expenditures for remedial, monitoring and investigatory activities will change in the future as major components of planned remediation activities are completed and the scope, timing and costs of existing activities are changed. As of March 31, 2023, the Company estimated a range of possible environmental losses and legal losses of $29,153,000 to $52,949,000. Within the range of possible environmental losses and legal losses, management has currently concluded that no single amount is more likely to occur than any other amounts in the range and, thus, has accrued at the lower end of the range. These accruals totaled $29,153,000 at March 31, 2023 and $32,628,000 at December 31, 2022. Although the Company believes that its estimated range of possible environmental losses and legal losses and its reserves are adequate for contingencies, it is possible due to the uncertainties noted above, that additional reserves could be required in the future. Cash expenditures related to environmental remediation and certain other legal matters approximated $3,466,000 and $428,000 for the three months ended March 31, 2023 and 2022, respectively.

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 on 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 Company's major contingencies at March 31, 2023:

Maywood, New Jersey Site

The Company's property in Maywood, New Jersey, property formerly owned by the Company adjacent to its current site and other nearby properties (collectively, the Maywood site) were listed on the National Priorities List in September 1993 pursuant to the provisions of CERCLA because of alleged chemical contamination. Pursuant to (i) a September 21, 1987 Administrative Order on Consent entered into between the USEPA and the Company for property formerly owned by the Company at the Maywood site and (ii) the issuance of an order on November 12, 2004 by the USEPA to the Company for property currently owned by the Company at the Maywood site, the Company has completed various Remedial Investigation Feasibility Studies (RI/FS), and on September 24, 2014, USEPA issued its Record of Decision (ROD) for chemically-contaminated soil at the Maywood site, which requires the Company to perform remedial cleanup of the soil and buried waste. The USEPA has not yet issued a ROD for chemically-contaminated groundwater at the Maywood site. Based on the most current information available, the Company believes its recorded liability is reasonable having considered the range of estimated costs of remediation for the Maywood site. The estimate of the cost of remediation for the Maywood site could change again as the Company continues to hold discussions with the USEPA, as the design of the remedial action is finalized, 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 USEPA which requires payment of certain costs and performance of certain investigative and design work for chemically-contaminated soil.

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 the Cooperative Agreement, the United States is responsible for the removal of radioactive waste at the Maywood site, including past and future remediation costs at the site. As such, the Company recorded no liability related to this settlement agreement.

D'Imperio Property Site

During the mid-1970's, Jerome Lightman and the Lightman Drum Company disposed of hazardous substances generated by the Company at several sites in New Jersey, including the D'Imperio site. The Company was named as a PRP in an October 2, 1998, lawsuit in the U.S. District Court for the District of New Jersey that involved the D'Imperio Site. In 2022, the PRPs were provided with updated remediation cost estimates by the PRP group technical consultant and project manager, which the Company considered in its 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 continues at the D'Imperio 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 Company's current recorded liability.

Wilmington Site

The Company is currently contractually obligated to contribute to the environmental response costs associated with the Company's formerly-owned site in Wilmington, Massachusetts (the Wilmington site). Remediation at this site is being managed by its current owner to whom the Company sold the property in 1980. Under the Company's October 1, 1993, agreement with the current owner of the Wilmington site, 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 $3,530,000 for the Company's portion of environmental response costs at the Wilmington site through March 31, 2023. 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 recorded liability. On July 29, 2022, the Company and other potentially responsible parties were notified of a possible joint claim by federal and state trustees for alleged natural resource damages related to the Wilmington site. The alleged damages may result in a range of possible penalties; however, at this stage, the Company is unable to predict the ultimate outcome of this claim, the allocation of costs among the potentially responsible parties or what impact, if any, the outcome might have on the Company's results of operations or cash flows.

The Company and other prior owners of the Wilmington site 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 its Elwood, Illinois (Millsdale) and Fieldsboro, New Jersey 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. Based on current information, the Company believes that its recorded liability for the remediation of the affected areas is appropriate based on an estimate of expected costs. However, actual costs could differ materially from the current recorded liability.

9. POSTRETIREMENT BENEFIT PLANS

Defined Benefit Pension Plans

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

Components of Net Periodic Benefit Cost

(In thousands)	**UNITED STATES** Three Months Ended March 31, 2023	2022
Interest cost	$ 1,731	$ 1,235
Expected return on plan assets	(2,133)	(2,201)
Amortization of net actuarial (gain) loss	(6)	577
Net periodic benefit cost	$ (408)	$ (389)

(In thousands)	UNITED KINGDOM Three Months Ended March 31, 2023	2022
Interest cost	$ 164	$ 101
Expected return on plan assets	(170)	(107)
Amortization of net actuarial loss	81	3
Net periodic benefit cost	$ 75	$ (3)

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 its funded U.S. qualified defined benefit plans. Approximately $256,000 is expected to be paid related to the unfunded non-qualified plans in 2023. Of such amount, $114,000 had been paid related to the non-qualified plans as of March 31, 2023.

U.K. Plan

The Company's U.K. subsidiary expects to contribute approximately $451,000 to its defined benefit pension plan in 2023. Of such amount, $113,000 had been contributed to the plan as of March 31, 2023.

Defined Contribution Plans

The Company sponsors retirement 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 (profit sharing plan), and one non-qualified supplemental executive plan. In the three months ended March 31, 2023 and 2022, the Company made 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 all Company locations, approximately 85 percent of union and non-union employees are eligible for either the Company's sponsored or statutory profit sharing contributions and 100 percent of U.S. based union and non-union employees are eligible for the Company's sponsored profit sharing contributions. In 2022 and 2023, profit sharing contributions for U.S. employees were made to the employee stock ownership plan. Profit sharing contributions are allocated to participant accounts based on participant base earnings.

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

(In thousands)	Three Months Ended March 31, 2023	2022
Retirement savings contributions	$ 2,048	$ 2,198
Profit sharing contributions	707	1,465
Total defined contribution plan expenses	$ 2,755	$ 3,663

The Company has a rabbi trust to fund the obligations of its non-qualified supplemental executive defined contribution plans (supplemental plans). The trust is comprised of 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 condensed 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 condensed 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 appreciate and decrease when the value of the trust assets decline (i.e., supplemental plan income is recognized). At March 31, 2023, the balance of the trust assets was $514,000, which equaled the balance of the supplemental plan liabilities. See the long-term investments section in Note 3, *Fair Value Measurements*, of the notes to the Company's condensed consolidated financial statements (included in Item 1 of this Form 10-Q) for further information regarding the Company's mutual fund assets.

10. EARNINGS PER SHARE

Below are the computations of basic and diluted earnings per share for the three months ended March 31, 2023 and 2022:

(In thousands, except per share amounts)	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
Computation of Basic Earnings per Share		
Net income attributable to Stepan Company	$ 16,142	$ 44,809
Weighted-average number of common shares outstanding	22,757	22,896
Basic earnings per share	$ 0.71	$ 1.96
Computation of Diluted Earnings per Share		
Net income attributable to Stepan Company	$ 16,142	$ 44,809
Weighted-average number of shares outstanding	22,757	22,896
Add weighted-average net shares from assumed exercise of options (under treasury stock method)[1]	99	99
Add weighted-average net shares related to unvested stock awards (under treasury stock method)	1	—
Add weighted-average net shares from assumed exercise of SARs (under treasury stock method)[1]	108	120
Add weighted-average contingently issuable net shares related to performance stock awards (under treasury stock method)	29	52
Weighted-average shares applicable to diluted earnings	22,994	23,167
Diluted earnings per share	$ 0.70	$ 1.93

(1) 403,711 and 364,350 options/SARs to acquire shares of the Company's common stock were excluded from the computation of dilutive earnings per share for the three months ended March 31, 2023 and 2022, respectively. The options/SARs' exercise prices were greater than the average market price for the Company's common stock and inclusion of the instruments would have had an antidilutive effect on the computations of the earnings per share.

11. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Below is the change in the Company’s accumulated other comprehensive income (loss) (AOCI) balance by component (net of income taxes) for the three months ended March 31, 2023 and 2022:

(In thousands)	Foreign Currency Translation Adjustments	Defined Benefit Pension Plan Adjustments	Cash Flow Hedge Adjustments	Total
Balance at December 31, 2021	$ (135,268)	$ (18,022)	$ 54	$ (153,236)
Other comprehensive income before reclassifications	9,829	—	2,791	12,620
Amounts reclassified from AOCI	—	436	(3)	433
Net current-period other comprehensive income	9,829	436	2,788	13,053
Balance at March 31, 2022	$ (125,439)	$ (17,586)	$ 2,842	$ (140,183)
Balance at December 31, 2022	$ (156,835)	$ (19,079)	$ 8,402	$ (167,512)
Other comprehensive income before reclassifications	18,423	—	(1,514)	16,909
Amounts reclassified from AOCI	—	58	(3)	55
Net current-period other comprehensive income	18,423	58	(1,517)	16,964
Balance at March 31, 2023	$ (138,412)	$ (19,021)	$ 6,885	$ (150,548)

Information regarding the reclassifications out of AOCI for the three months ended March 31, 2023 and 2022, is displayed below:

(In thousands)	Amount Reclassified from AOCI [1]		
	Three Months Ended March 31,		
AOCI Components	2023	2022	Affected Line Item in Condensed Consolidated Statements of Income
Amortization of defined benefit pension actuarial losses	$ (75)	$ (580)	[2]
	17	144	Tax benefit
	$ (58)	$ (436)	Net of tax
Gains and losses on cash flow hedges:			
Foreign exchange contracts	3	3	Cost of sales
	3	3	Total before tax
	—	—	Tax benefit
	$ 3	$ 3	Net of tax
Total reclassifications for the period	$ (55)	$ (433)	Net of tax

(1) Amounts in parentheses denote expense to the Company's Condensed Consolidated Statements of Income.
(2) This component of accumulated other comprehensive income is included in the computation of net periodic benefit cost. See Note 9, *Postretirement Benefit Plans*, of the notes to the Company's condensed consolidated financial statements (included in Item 1 of this Form 10-Q) for additional details.

12. SEGMENT REPORTING

The Company has three reportable segments: Surfactants, Polymers and Specialty Products. Net sales by segment for the three months ended March 31, 2023 and 2022, were as follows:

(In thousands)	Three Months Ended March 31,	
	2023	2022
Segment Net Sales		
Surfactants	$ 467,828	$ 468,266
Polymers	161,127	187,079
Specialty Products	22,481	19,931
Total	$ 651,436	$ 675,276

Segment operating income and reconciliations of segment operating income to income before provision for income taxes for the three months ended March 31, 2023 and 2022, are summarized below:

(In thousands)	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
Segment Operating Income		
Surfactants	$ 27,056	$ 53,769
Polymers	10,004	14,129
Specialty Products	2,530	3,695
Segment operating income	39,590	71,593
Business restructuring	(157)	(52)
Unallocated corporate expenses (1)	(18,376)	(8,195)
Total operating income	21,057	63,346
Other Income (Expense)		
Interest, net	(2,822)	(2,306)
Other, net	1,668	(1,650)
Income before provision for income taxes	$ 19,903	$ 59,390

(1) Unallocated corporate expenses are primarily comprised of 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 are not used to evaluate segment performance.

13. REVENUE FROM CONTRACTS WITH CUSTOMERS

As of March 31, 2023, the Company had $797,000 of contract liabilities and no contract assets. 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 rare as it would require a customer to make a payment prior to a performance obligation being satisfied. When such situations do arise, the Company maintains a deferred revenue liability until the time a performance obligation has been satisfied. The Company recognized $739,000 of revenue in the first three months of 2023 from pre-existing contract liabilities at December 31, 2022. During 2020, the Company recorded $10,709,000 of long-term deferred revenue associated with a payment received to defray the cost of capital expenditures necessary to service a customer's future product needs. On March 31, 2023, $8,309,000 was classified as long-term and $2,216,000 was classified as short-term. This deferred revenue is being recognized over the period of the contract and $184,000 of revenue has been recognized from this contract as of March 31, 2023.

The tables below provide a geographic disaggregation of net sales for the three months ended March 31, 2023 and 2022. The Company's business segmentation by geographic region most effectively captures the nature and economic characteristics of the Company's revenue streams impacted by economic factors.

(In thousands)	For the Three Months Ended March 31, 2023			
Geographic Market	Surfactants	Polymers	Specialty	Total
North America	$ 277,140	$ 81,169	$ 17,599	$ 375,908
Europe	91,120	69,057	4,872	165,048
Latin America	81,099	785	10	81,894
Asia	18,470	10,116	—	28,586
Total	$ 467,828	$ 161,127	$ 22,481	$ 651,436

(In thousands)	For the Three Months Ended March 31, 2022			
Geographic Market	Surfactants	Polymers	Specialty	Total
North America	$ 273,228	$ 94,856	$ 16,676	$ 384,760
Europe	91,017	80,783	3,132	174,932
Latin America	85,434	1,220	123	86,777
Asia	18,587	10,220	—	28,807
Total	$ 468,266	$ 187,079	$ 19,931	$ 675,276

14. DEBT

At March 31, 2023 and December 31, 2022, debt was comprised of the following:

(In thousands)	Maturity Dates	March 31, 2023	December 31, 2022
Senior unsecured notes			
3.95% (net of unamortized debt issuance cost of $175 and $186 for 2023 and 2022, respectively)	2023-2027	$ 71,254	$ 71,243
3.86% (net of unamortized debt issuance cost of $112 and $125 for 2023 and 2022, respectively)	2023-2025	42,745	42,732
4.86% (net of unamortized debt issuance cost of $19 and $30 for 2023 and 2022, respectively)	2023	9,266	9,260
2.30% (net of unamortized debt issuance cost of $116 and $122 for 2023 and 2022, respectively)	2024-2028	49,884	49,878
2.37% (net of unamortized debt issuance cost of $122 and $128 for 2023 and 2022, respectively)	2024-2028	49,878	49,872
2.73% (net of unamortized debt issuance cost of $102 and $55 for 2023 and 2022, respectively)	2025-2031	99,898	99,945
2.83% (net of unamortized debt issuance cost of $76 and $40 for 2023 and 2022, respectively)	2026-2032	74,924	74,960
Revolving credit facility and term loan borrowing	2023-2027	307,125	189,250
Debt of foreign subsidiaries			
Unsecured bank debt, foreign currency	2023	6,066	-
Total debt		$ 711,040	$ 587,140
Less current maturities		257,298	132,111
Long-term debt		$ 453,742	$ 455,029

The Company's long-term debt financing is currently comprised of certain senior unsecured notes issued to insurance companies in private placement transactions, totaling $397,849,000 as of March 31, 2023. These notes are denominated in U.S. dollars and have fixed interest rates ranging from 2.30 percent to 4.86 percent. The notes had original maturities of seven to 12 years with mandatory principal payments beginning four, five and six years after issuance. The Company will be required to make principal payments on the currently outstanding notes from 2023 to 2032.

The Company's credit agreement with a syndicate of banks provides for credit facilities in an initial aggregate principal amount of $450,000,000, consisting of (a) a $350,000,000 multi-currency revolving credit facility and (b) a $100,000,000 delayed draw term loan credit facility, each of which matures on June 24, 2027. The Company maintains import letters of credit, and 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 March 31, 2023, the Company had outstanding letters of credit totaling $11,485,000 and $307,125,000 of outstanding borrowings under the credit agreement, inclusive of a $98,125,000 delayed draw term loan ($1,875,000 of the term loan principal has been permanently repaid as scheduled). There was $129,515,000 available under the credit agreement as of March 31, 2023.

The Company's material debt agreements contain provisions which, among other covenants, 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 $233,685,000 and $224,189,000 at March 31, 2023 and December 31, 2022, respectively.

15. OTHER, NET

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

(In thousands)	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
Foreign exchange gains (losses)	$ (324)	$ 282
Investment income	143	163
Realized and unrealized gains (losses) on investments	1,516	(2,487)
Net periodic benefit cost	333	392
Other, net	$ 1,668	$ (1,650)

16. NONCASH INVESTING AND FINANCING ACTIVITIES

Noncash investing activities included liabilities (accounts payable) incurred for property, plant and equipment expenditures of approximately $27,061,000 and $37,154,000 that were unpaid at March 31, 2023 and 2022, respectively. Noncash financing activities included the issuance of 88,497 shares of the Company's common stock (valued at $9,607,000) and 48,936 shares of the Company's common stock (valued at $5,145,000) in connection with the Company's equity incentive compensation plan during the period ended March 31, 2023 and 2022, respectively.

17. RECENT ACCOUNTING PRONOUNCEMENTS

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848) Facilitation of the Effect of Reference Rate Reform on Financial Reporting.* This update provides optional guidance for a limited period of time to ease the burden of implementing the usage of new reference rates. The amendments apply to contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contract terms related to the replacement of the reference rate. If elected the optional expedients to contract modifications must be applied consistently for all eligible contracts or eligible transactions. The original timeframe for electing optional expedients to contract modifications was between March 12, 2020 and December 31, 2022. In December 2022, the FASB issued ASU No. 2022-06 deferring the sunset date of Topic 848 from December 31, 2022, to December 31, 2024. The guidance should be applied prospectively. Other than electing select expedients associated with an interest rate swap, the Company has not currently utilized any of the optional expedients of exceptions available under this ASU. The Company will continue to assess whether this ASU is applicable throughout the effective period.

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 II-Item IA - Risk Factors" of this Quarterly Report on Form 10-Q and under "Part I-Item IA. Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2022, including the risks and uncertainties related to the following:

- accidents, unplanned production shutdowns or disruptions in any of the Company's manufacturing facilities;
- reduced demand for Company products due to customer product reformulations or new technologies;
- the Company's inability to successfully develop or introduce new products;
- compliance with environmental, health and safety, product registration and anti-corruption laws;
- the Company's ability to make acquisitions of suitable candidates and successfully integrate acquisitions;
- global competition and the Company's ability to successfully compete;
- volatility of raw material, natural gas and electricity costs as well as any disruption in their supply;
- disruptions in transportation or significant changes in transportation costs;
- downturns in certain industries and general economic downturns;
- international business risks, including fluctuations in currency exchange rates, legal restrictions and taxes;
- unfavorable resolution of litigation against the Company;
- the Company's ability to keep and protect its intellectual property rights;
- potentially adverse tax consequences due to the international scope of the Company's operations;
- downgrades to the Company's credit ratings or disruptions to the Company's ability to access well-functioning capital markets;
- conflicts, military actions, terrorist attacks and general instability, particularly in certain energy-producing nations, along with increased security regulations;
- cost overruns, delays and miscalculations in capacity needs with respect to the Company's expansion or other capital projects;
- interruption of, damage to or compromise of the Company's IT systems and failure to maintain the integrity of customer, colleague or Company data;
- the Company's ability to retain its executive management and other key personnel;
- the Company's ability to operate within the limitations of debt covenants; and
- the other factors set forth under "Risk Factors."

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 could also impact 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 is comprised of three reportable segments:

Surfactants – Surfactants, which accounted for 72 percent of consolidated net sales for the first three months of 2023, are principal ingredients in consumer and industrial cleaning and disinfection 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, disinfectants, 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 Mexico and Brazil) and two Asian sites (Philippines and Singapore).

Polymers – Polymers, which accounted for 25 percent of consolidated net sales for the first three months of 2023, include polyurethane polyols, polyester resins and phthalic anhydride. Polyurethane polyols are used in the manufacture of rigid foam for thermal insulation in the construction industry and are also a base raw material for coatings, adhesives, sealants and elastomers (collectively, CASE products). 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 are manufactured at the Company's Elwood, Illinois (Millsdale) and Wilmington, North Carolina sites. Phthalic anhydride is manufactured at the Company's Millsdale site and specialty polyols are manufactured at the Company's Columbus, Georgia, site. In Europe, polyurethane polyols are manufactured at the Company's plants in Germany and the Netherlands and specialty polyols are manufactured at the Company's Poland site. In Asia, polyurethane polyols and specialty polyols are manufactured at the Company's China plant.

Specialty Products – Specialty products, which accounted for three percent of consolidated net sales for the first three months of 2023, 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, by third-party contractors.

Deferred Compensation Plans

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

	Income (Expense) For the Three Months Ended March 31,		
(In millions)	2023	2022	Change
Deferred Compensation (Administrative expenses)	$ (1.5)	$ 7.5	$ (9.0) [(1)]
Realized/Unrealized Gains (Losses) on Investments (Other, net)	1.5	(2.5)	4.0
Investment Income (Other, net)	0.1	0.2	(0.1)
Pretax Income Effect	$ 0.1	$ 5.2	$ (5.1)

(1) See the *Segment Results-Corporate Expenses* section of this MD&A for details regarding the period-over-period changes in deferred compensation.

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 table presents 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 months ended March 31, 2023 and 2022:

	For the Three Months Ended March 31,			
(In millions)	2023	2022	Decrease	(Decrease) Due to Foreign Translation
Net Sales	$ 651.4	$ 675.3	$ (23.9)	$ (12.5)
Gross Profit	73.6	109.2	(35.6)	(1.5)
Operating Income	21.1	63.3	(42.2)	(1.1)
Pretax Income	19.9	59.4	(39.5)	(1.1)

RESULTS OF OPERATIONS

Three Months Ended March 31, 2023 and 2022

Summary

Net income in the first quarter of 2023 decreased 64 percent to $16.1 million, or $0.70 per diluted share, from $44.8 million, or $1.93 per diluted share, in the first quarter of 2022. Adjusted net income decreased 60 percent to $16.4 million, or $0.71 per diluted share, from $40.7 million, or $1.76 per diluted share in the first quarter of 2022 (see the "Reconciliation of Non-GAAP Adjusted Net Income and Diluted Earnings per Share" section of this MD&A for a reconciliation between reported net income and reported earnings per diluted share and non-GAAP adjusted net income and adjusted earnings per diluted share). Below is a summary discussion of the major factors leading to the changes in net sales, expenses and income in the first quarter of 2023 compared to the first quarter of 2022. A detailed discussion of segment operating performance for the first quarter of 2023 compared to the first quarter of 2022 follows the summary.

Consolidated net sales decreased $23.8 million, or four percent, versus the prior year quarter. Consolidated sales volume declined 14 percent, which negatively impacted the change in net sales by $97.6 million. Sales volume in the Surfactant, Polymer and Specialty Products segments decreased 13 percent, 18 percent and seven percent, respectively. The decline in sales volume was primarily due to lower market demand and continued customer and channel inventory destocking. Foreign currency translation negatively impacted the year-over-year change in net sales by $12.5 million due to a stronger U.S. dollar against most currencies in foreign locations where the Company has operations. Higher average selling prices positively impacted the year-over-year change in net sales by $86.3 million. The increase in average selling prices was mainly attributable to the pass-through of higher raw material and input costs as well as more favorable product and customer mix.

Operating income in the first quarter of 2023 decreased $42.3 million, or 67 percent, versus operating income in the first quarter of 2022. Surfactant, Polymer and Specialty Products operating income decreased $26.7 million, $4.1 million, and $1.2 million, respectively, versus the first quarter of 2022. Corporate expenses, including business restructuring and deferred compensation expenses, increased $10.3 million year-over-year. Most of this increase was attributable to $9.0 million of higher deferred compensation expense in the current year quarter. Foreign currency translation had a $1.1 million unfavorable impact on operating income in the first quarter of 2023 versus the prior year.

Operating expenses (including deferred compensation and business restructuring) increased $6.6 million, or 14 percent, versus the prior year quarter. Changes in the individual income statement line items that comprise the Company's operating expenses were as follows:

- Selling expenses decreased $2.2 million, or 14 percent, primarily due to lower incentive-based compensation and bad debt expenses.
- Administrative expenses increased $1.1 million, or five percent, primarily due to the higher salaries, cloud-based application costs, patent and trademark expenses, and other smaller items that more than offset lower incentive-based compensation expenses.
- Research, development and technical service (R&D) expenses decreased $1.3 million, or eight percent, primarily due to lower incentive-based compensation expenses.
- Deferred compensation was $1.5 million of expense in the first quarter of 2023 versus $7.5 million of income in the prior year quarter. The $9.0 million increase in deferred compensation expense was primarily due to a $25.48 per share decrease in the market price of Company common stock in the first quarter of 2022 compared to a $3.43 per share decrease in the first quarter of 2023. A year-over-year increase in the market value of mutual fund investment assets held for the plans in the first quarter of 2023, versus a decrease in the first quarter of 2022, also contributed to the higher expense in the first quarter of 2023. See the *Overview* and *Segment Results-Corporate Expenses* section of this MD&A for further details.

Net interest expense for the first quarter of 2023 increased $0.5 million, or 22 percent, versus the first quarter of 2022. This increase was primarily attributable to higher outstanding debt balances and higher interest rates in 2023 versus 2022.

Other, net was $1.7 million of income in the first quarter of 2023 versus $1.7 million of expense in the first quarter of 2022. The Company recognized $1.7 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 quarter of 2023 compared to $2.3 million of investment losses in the first quarter of 2022. In addition, the Company reported $0.3 million of foreign exchange losses in the first quarter of 2023 versus $0.3 million of foreign exchange gains in the first quarter of 2022. The Company's net periodic pension income was flat between years.

The Company's effective tax rate was 18.9 percent in the first quarter of 2023 versus 24.6 percent in the first quarter of 2022. The decrease was primarily attributable to more favorable tax benefits derived from stock-based compensation awards exercised or distributed in the first quarter of 2023 versus the first quarter of 2022.

Segment Results

(Dollars in thousands)	For the Three Months Ended March 31,			
Net Sales	2023	2022	Increase (Decrease)	Percent Change
Surfactants	$ 467,828	$ 468,266	$ (438)	0
Polymers	161,127	187,079	(25,952)	-14
Specialty Products	22,481	19,931	2,550	13
Total Net Sales	$ 651,436	$ 675,276	$ (23,840)	-4

(Dollars in thousands)	For the Three Months Ended March 31,			
<u>Operating Income</u>	2023	2022	Increase (Decrease)	Percent Change
Surfactants	$ 27,056	$ 53,769	$ (26,713)	-50
Polymers	10,004	14,129	(4,125)	-29
Specialty Products	2,530	3,695	(1,165)	-32
Segment Operating Income	$ 39,590	$ 71,593	$ (32,003)	-45
Corporate Expenses, Excluding Deferred Compensation and Restructuring	$ 16,874	$ 15,696	$ 1,178	8
Deferred Compensation Expense (Income)	1,502	(7,501)	9,003	-120
Business Restructuring	157	52	105	202
Total Operating Income	$ 21,057	$ 63,346	$ (42,289)	-67

Surfactants

Surfactant net sales for the first quarter of 2023 decreased $0.4 million versus net sales for the first quarter of 2022. Higher average selling prices positively impacted the change in net sales by $67.5 million. The higher average selling prices were mainly attributable to the pass-through of higher raw material and input costs as well as improved product and customer mix. Sales volume declined 13 percent and negatively impacted the change in net sales by $62.0 million. Foreign currency translation had a $5.9 million unfavorable impact on the year-over-year change in net sales. A comparison of net sales by region follows:

(Dollars in thousands)	For the Three Months Ended March 31,			
<u>Net Sales</u>	2023	2022	Increase (Decrease)	Percent Change
North America	$ 277,139	$ 273,228	$ 3,911	1
Europe	91,120	91,017	103	0
Latin America	81,099	85,434	(4,335)	-5
Asia	18,470	18,587	(117)	-1
Total Surfactants Segment	$ 467,828	$ 468,266	$ (438)	0

Net sales for North American operations increased $3.9 million, or one percent, year-over-year. Higher average selling prices positively impacted the change in net sales by $52.7 million. The higher average selling prices were mainly attributable to the pass-through of higher raw material and input costs along with more favorable product and customer mix. Sales volume declined 18 percent between years and negatively impacted the change in net sales by $47.9 million. The lower sales volume was primarily due to lower commodity laundry demand, startup delays associated with our low 1,4 dioxane transition and the previously disclosed backward integration by one customer in the third quarter of 2022, lower demand in the personal care end market and continued customer and channel inventory destocking. Higher demand for products sold into the agricultural end market partially offset the above. Foreign currency translation negatively impacted the change in net sales by $0.9 million.

Net sales for European operations increased $0.1 million versus the prior year quarter. Higher average selling prices positively impacted the year-over-year change in net sales by $13.3 million. The higher average selling prices were primarily due to the pass-through of higher raw material costs. Sales volume declined eight percent and negatively impacted the change in net sales by $7.5 million. Lower sales volume into the laundry and cleaning end market, mostly commodity laundry products, the personal care end market and to our distribution partners was partially offset by higher demand for products sold into the agriculture end market. Foreign currency translation negatively impacted the change in net sales by $5.7 million. A stronger U.S. dollar relative to the European euro and British pound sterling led to the unfavorable foreign currency translation effect.

Net sales for Latin American operations decreased $4.3 million, or five percent, primarily due to a five percent decrease in sales volume and lower average selling prices. These items negatively impacted the change in net sales by $4.1 million and $1.9 million, respectively. The lower sales volume was primarily due to lower demand for commodity laundry products sold within the consumer products business and lower demand for products sold into the functional product end markets. Foreign currency translation positively impacted the change in net sales by $1.7 million.

Net sales for Asian operations decreased $0.1 million, or one percent, versus the prior year quarter. Higher average selling prices positively impacted the change in net sales by $4.1 million. The higher average selling prices primarily reflect the pass-through of higher raw material costs and improved product and customer mix. A 17 percent decline in sales volume and the unfavorable impact of foreign currency translation negatively impacted the change in net sales by $3.1 million and $1.1 million, respectively. The decline in sales volume was primarily due to lower demand for products sold into the personal care end market that was partially offset by higher sales into the functional product end markets and higher demand from our distribution partners.

Surfactant operating income for the first quarter of 2023 decreased $26.7 million, or 50 percent, versus operating income for the first quarter of 2022. Gross profit decreased $29.2 million, or 36 percent, and operating expenses decreased $2.5 million, or nine percent. Comparisons of gross profit by region and total segment operating expenses and operating income follow:

(Dollars in thousands)	For the Three Months Ended March 31,			
Gross Profit and Operating Income	2023	2022	(Decrease)	Percent Change
North America	$ 35,213	$ 53,168	$ (17,955)	-34
Europe	10,220	13,159	(2,939)	-22
Latin America	7,172	13,139	(5,967)	-45
Asia	283	2,641	(2,358)	-89
Surfactants Segment Gross Profit	$ 52,888	$ 82,107	$ (29,219)	-36
Operating Expenses	25,832	28,338	(2,506)	-9
Surfactants Segment Operating Income	$ 27,056	$ 53,769	$ (26,713)	-50

Gross profit for North American operations decreased $18.0 million, or 34 percent, versus the prior year primarily due to an 18 percent decline in sales volume and lower average unit margins. These items negatively impacted the year-over-year change in gross profit by $9.3 million and $8.6 million, respectively. Gross profit was negatively impacted by higher costs due to inflation, higher pre-commissioning expenses related to the new alkoxylation production facility in Pasadena, Texas and startup expenses related to the Company's new low 1,4 dioxane capacity in the United States. Foreign currency translation negatively impacted the change in gross profit by $0.1 million.

Gross profit for European operations decreased $2.9 million, or 22 percent, due to lower average unit margins, an eight percent decrease in sales volume and the unfavorable impact of foreign currency translation. These items negatively impacted the year-over-year change in gross profit by $1.2 million, $1.1 million and $0.6 million, respectively. The lower average unit margins were mostly due to less favorable product and customer mix along with higher costs due to inflation.

Gross profit for Latin American operations decreased $6.0 million, or 45 percent, primarily due to lower average unit margins. The lower average unit margins negatively impacted the change in gross profit by $5.3 million and primarily reflect a less favorable product and customer mix, mostly due to lower demand for products sold into the agricultural end market, and higher costs due to inflation. A five percent decline in sales volume negatively impacted the year-over-year change in gross profit by $0.7 million.

Gross profit for Asia operations decreased $2.4 million, or 89 percent, primarily due to lower average unit margins. The lower average unit margins negatively impacted the change in gross profit by $1.9 million and were mostly attributable to higher unit overhead costs due to the timing of production runs. A 17 percent decline in sales volume negatively impacted the change in gross profit by $0.4 million. The unfavorable impact of foreign currency translation negatively impacted the change in gross profit by $0.1 million.

Operating expenses for the Surfactant segment decreased $2.5 million, or nine percent, in the first quarter of 2023 versus the first quarter of 2022. This decrease was mainly attributable to lower incentive-based compensation expenses.

Polymers

Polymer net sales for the first quarter of 2023 decreased $26.0 million, or 14 percent, versus net sales for the same period of 2022. An 18 percent decline in sales volume and the unfavorable impact of foreign currency translation negatively impacted the change in net sales by $34.1 and $6.3 million, respectively. Higher average selling prices positively impacted the change in net sales by $14.4 million. The higher average selling prices were mainly due to the pass through of higher raw material and input costs along with margin recovery. A comparison of net sales by region follows:

(Dollars in thousands)	For the Three Months Ended March 31,			
Net Sales	2023	2022	(Decrease)	Percent Change
North America	$ 81,169	$ 94,856	$ (13,687)	-14
Europe	69,057	80,783	(11,726)	-15
Asia and Other	10,901	11,440	(539)	-5
Total Polymers Segment	$ 161,127	$ 187,079	$ (25,952)	-14

Net sales for North American operations decreased $13.7 million, or 14 percent, primarily due to a 25 percent decrease in sales volume. The decline in sales volume negatively impacted the change in net sales by $23.5 million. Sales volume of polyols used in rigid foam applications decreased 30 percent year-over-year. Sales volume within the phthalic anhydride and specialty polyols businesses decreased 13 percent and 12 percent, respectively. The year-over-year decline in sales volume reflects customer inventory destocking and lower construction-related activity. Higher average selling prices positively impacted the change in net sales by $9.8 million. The higher average selling prices were mainly due to the pass-through of higher raw material and input costs.

Net sales for European operations decreased $11.7 million, or 15 percent, year-over-year. A 17 percent decline in sales volume and the unfavorable impact of foreign currency translation negatively impacted the change in net sales by $13.3 million and $5.5 million, respectively. The decline in sales volume reflects customer inventory destocking, lower construction-related activity and customer share loss. A stronger U.S. dollar relative to the Polish zloty and British pound sterling led to the unfavorable foreign currency translation effect. Higher average selling prices positively impacted the change in net sales by $7.1 million. The higher average selling prices were primarily due to the pass-through of higher raw material costs and margin recovery.

Net sales for Asia and Other operations decreased $0.5 million, or five percent, primarily due to a decline in average selling prices and the unfavorable impact of foreign currency translation. These items negatively impacted the year-over-year change in net sales by $1.5 million and $0.8 million, respectively. Sales volume increased 16 percent and positively impacted the change in net sales by $1.8 million. The higher sales volume reflects the loosening of COVID lockdowns and restrictions in China.

Polymer operating income in the first quarter of 2023 decreased $4.1 million, or 29 percent, versus operating income in the first quarter of 2022. Gross profit decreased $5.0 million, or 22 percent and operating expenses decreased $0.9 million or 11 percent between years. Comparisons of gross profit by region and total segment operating expenses and operating income follow:

(Dollars in thousands)	For the Three Months Ended March 31,			
Gross Profit and Operating Income	2023	2022	(Decrease)	Percent Change
North America	$ 6,144	$ 8,280	$ (2,136)	-26
Europe	10,312	12,861	(2,549)	-20
Asia and Other	867	1,171	(304)	-26
Polymers Segment Gross Profit	$ 17,323	$ 22,312	$ (4,989)	-22
Operating Expenses	7,319	8,183	(864)	-11
Polymers Segment Operating Income	$ 10,004	$ 14,129	$ (4,125)	-29

Gross profit for North American operations decreased $2.1 million, or 26 percent. This decrease was entirely related to the 25 percent decline in sales volume as average unit margins were flat year-over-year.

Gross profit for European operations decreased $2.5 million, or 20 percent, versus the first quarter of 2022. The decrease was primarily due to a 17 percent decline in sales volume and the unfavorable impact of foreign currency translation. These items negatively impacted the year-over-year change in gross profit by $2.1 million and $0.8 million, respectively. Higher average unit margins positively impacted the change in gross profit by $0.4 million.

Gross profit for Asia and Other operations decreased $0.3 million, or 26 percent, primarily to lower average unit margins and the unfavorable impact of foreign currency translation. These items negatively impacted the change in gross profit by $0.4 million and $0.1 million, respectively. Sales volume increased 16 percent and positively impacted the change in gross profit by $0.2 million.

Operating expenses for the Polymers segment declined $0.9 million, or 11 percent, in the first quarter of 2023 versus the first quarter of 2022. This decrease was mainly attributable to lower incentive-based compensation expenses.

Specialty Products

Specialty Products net sales for the first quarter of 2023 increased $2.6 million, or 13 percent, versus net sales for the first quarter of 2022. This increase reflects higher average selling prices which more than offset a seven percent decline in sales volume. Gross profit and operating income decreased $1.5 million and $1.2 million, respectively, year-over-year. The year-over-year declines in gross profit and operating income were mostly attributable to lower sales volume and unit margins within the medium chain triglycerides (MCTs) product line.

Corporate Expenses

Corporate expenses, which include deferred compensation, business restructuring and other operating expenses that are not allocated to the reportable segments, increased $10.3 million between quarters. Corporate expenses were $18.5 million in the first quarter of 2023 versus $8.2 million in the first quarter of 2022. This year-over-year increase was primarily attributable to $9.0 million of higher deferred compensation expenses.

The $9.0 million increase in deferred compensation expense was primarily due to a $25.48 per share decrease in the market price of Company common stock in the first quarter of 2022 compared to a $3.43 per share decrease in the first quarter of 2023. A year-over-year increase in the market value of mutual fund investment assets held for the plans in the first quarter of 2023, versus a decrease in the first quarter of 2022, also contributed to the higher expense in the first quarter of 2023. The following table presents the quarter-end Company common stock market prices used in the computation of deferred compensation income/expense for the three months ended March 31, 2023 and 2022:

	2023	2022		2021
	March 31	December 31	March 31	December 31
Company Common Stock Price	$ 103.03	$ 106.46	$ 98.81	$ 124.29

LIQUIDITY AND CAPITAL RESOURCES

Overview

For the three months ended March 31, 2023, operating activities were a cash use of $72.1 million versus a cash use of $20.9 million for the comparable period in 2022. For the first three months of 2023, investing cash outflows totaled $90.3 million versus cash outflows of $57.1 million in the prior year period. Financing activities were a cash source of $113.5 million versus a cash source of $154.8 million in the prior year period.

Cash and cash equivalents decreased $46.8 million compared to December 31, 2022, inclusive of a $2.1 million favorable foreign exchange rate impact. On March 31, 2023, the Company's cash and cash equivalents totaled $127.0 million. Cash in U.S. demand deposit accounts and certificates of deposit totaled $8.2 million and cash in U.S. money market funds totaled $9.1 million. The Company's non-U.S. subsidiaries held $109.7 million of cash as of March 31, 2023.

Operating Activities

Net income during the first three months of 2023 decreased $28.7 million versus the comparable period in 2022. Working capital was a cash use of $109.9 million during the first three months of 2023 versus a use of $85.0 million in the comparable period in 2022.

Accounts receivable were a cash use of $40.4 million during the first three months of 2023 compared to a cash use of $80.3 million for the comparable period of 2022. Inventories were a cash source of $38.3 million in 2023 versus a cash source of $0.5 million in 2022. Accounts payable and accrued liabilities were a cash use of $98.5 million in 2023 compared to a cash use of $1.2 million for the same period in 2022.

Working capital requirements were higher in the first three months of 2023 compared to 2022 primarily due to the changes noted above. The lower accounts receivable cash usage reflects lower sales volume principally due to a slow down in customer demand across most end use markets and customer inventory and channel destocking. The higher cash source from inventories was due to lower quantities and prices in 2023. The higher accounts payable cash usage reflects lower quantities of raw materials purchased during the first quarter of 2023 and the payment of higher 2022 year-end accruals during the first quarter of 2023. It is management's opinion that the Company's liquidity is sufficient to provide for potential increases in working capital requirements during 2023.

Investing Activities

Cash used for investing activities increased $33.2 million year-over-year. Cash used for capital expenditures was $92.2 million in the first three months of 2023 versus $60.3 million in 2022. The higher capital spending in 2023 is largely attributable to the alkoxylation plant the Company is building at its Pasadena, Texas site.

For 2023, the Company estimates that total capital expenditures will be in the range of $220.0 million to $240.0 million. This projected spending includes the new alkoxylation plant that is being built in Pasadena, Texas, equipment upgrades to meet new regulatory limits in 1,4 Dioxane in the United States, growth initiatives, infrastructure and optimization spending in the United States and Mexico. The equipment upgrades to meet the new regulatory limits in 1,4 Dioxane are expected to be completed by the end of the second quarter of 2023 and the new alkoxylation plant is expected to start up in the first half of 2024.

Financing Activities

Cash flow from financing activities was a source of $113.5 million in 2023 versus a source of $154.8 million in 2022. The year-over-year change was primarily due to a lower level of borrowings.

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 compensation plans. The Company may, from time to time, seek to purchase additional amounts of its outstanding equity and/or retire 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. For the three months ended March 31, 2023, the Company did not purchase any shares of its common stock on the open market. At March 31, 2023, the Company had $125.1 million remaining under the share repurchase program authorized by its Board of Directors.

Debt and Credit Facilities

Consolidated balance sheet debt increased from $587.1 million on December 31, 2022 to $711.0 million on March 31, 2023, primarily due to higher domestic borrowings from the Company’s revolving credit facility. Net debt (which is defined as total debt minus cash – see the “Reconciliation of Non-GAAP Net Debt” section of this MD&A) increased $170.7 million, from $413.3 million at December 31, 2022 to $584.0 million at March 31, 2023. This change was due to a debt increase of $123.9 million and a cash decrease of $46.8 million.

As of March 31, 2023, the ratio of net debt to net debt plus shareholders’ equity was 32.9 percent versus 26.2 percent at December 31, 2022 (see the “Reconciliation of Non-GAAP Net Debt” section in this MD&A for further details). On March 31, 2023, the Company’s debt included $397.8 million of unsecured notes, with maturities ranging from 2023 through 2032, that were issued to insurance companies in private placement transactions pursuant to note purchase agreements, a $98.1 million delayed draw term loan borrowed pursuant to the Company's credit agreement, $209.0 million of short term loans borrowed under its revolving credit facility and $6.1 million of foreign credit line borrowings. The proceeds from the note issuances have been the Company’s primary source of long-term debt financing and are supplemented by borrowings under bank credit facilities to meet short and medium-term liquidity needs.

The Company's credit agreement with a syndicate of banks provides for credit facilities in an initial aggregate principal amount of $450.0 million, consisting of (a) a $350.0 million multi-currency revolving credit facility and (b) a $100.0 million delayed draw term loan credit facility, each of which matures on June 24, 2027. The Company maintains import letters of credit, and 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 March 31, 2023, the Company had outstanding loans totaling $307.1 million, inclusive of a $98.1 million delayed draw term loan, and letters of credit totaling $11.5 million under the credit agreement, with $129.5 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 expenditures and acquisitions. At March 31, 2023, the Company’s foreign subsidiaries had $6.1 million of outstanding debt.

The Company is subject to covenants under its 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 shares. 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 $750.0 million.

4. The Company is permitted to pay dividends and purchase treasury shares after June 24, 2022, in amounts of up to $100.0 million plus 100 percent of net income and cash proceeds of stock option exercises, measured cumulatively beginning January 1, 2022. The maximum amount of dividends that could have been paid within this limitation is disclosed as unrestricted retained earnings in Note 14, *Debt*, of the notes to the Company’s condensed consolidated financial statements (included in Item 1 of this Form 10-Q).

The Company believes it was in compliance with all of its debt covenants as of March 31, 2023.

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. During the first three months of 2023 and 2022, the Company's expenditures for capital projects related to environmental matters were $1.5 million and $2.5 million, respectively. These projects are capitalized and depreciated over their estimated useful lives, which are typically 10 years. Recurring costs associated with the operation and maintenance of facilities for waste treatment and disposal and managing environmental compliance in ongoing operations at the Company's manufacturing locations were $8.9 million and $8.2 million for the three months ended March 31, 2023 and 2022, respectively.

Over the years, the Company has received requests for information related to or has been named by the government as a potentially responsible party at a number of waste disposal sites where cleanup costs have been or may be incurred under CERCLA and similar state 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 these 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. Estimating the possible costs of remediation requires making assumptions related to the nature and extent of contamination and the methods and resulting costs of remediation. Some of the factors on which the Company bases its estimates include information provided by decisions rendered by State and Federal environmental regulatory agencies, information provided by feasibility studies, and remedial action plans developed. After partial remediation payments at certain sites, the Company has estimated a range of possible environmental and legal losses of $29.2 million to $52.9 million at March 31, 2023 and $32.6 million to $56.4 million at December 31, 2022. Within the range of possible environmental losses, management has currently concluded that no single amount is more likely to occur than any other amounts in the range and, thus, has accrued at the lower end of the range; these accruals totaled $29.2 million at March 31, 2023 and $32.6 million at December 31, 2022. Because the liabilities accrued are estimates, actual amounts could differ materially from the amounts reported. Cash expenditures related to environmental remediation and certain legal matters were $3.5 million for the three months ended March 31, 2023, compared to $0.4 million for the same period in 2022.

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 on 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 8, *Contingencies*, in the notes to the Company's condensed consolidated financial statements (included in Item 1 of this Form 10-Q) for a summary of the significant environmental proceedings related to certain environmental sites.

OUTLOOK

Management believes the Company's second quarter 2023 sales volume will remain depressed versus the prior year as markets continue to reconcile future demand with current inventory levels. Management expects year-over-year volume growth during the second half of the year driven by modest recovery in demand for Rigid polyols, growth in Surfactant sales volume associated with new contracted business and a low comparable base. The Company remains committed to advancing its strategic and innovation initiatives that are instrumental to long-term growth and will continue to actively control costs and execute its productivity programs.

CRITICAL ACCOUNTING POLICIES

There have been no material changes to the critical accounting policies disclosed in the Company's 2022 Annual Report on Form 10-K.

NON-GAAP RECONCILIATIONS

The Company believes that certain non-GAAP measures, when presented in conjunction with comparable GAAP measures, are useful for evaluating the Company's performance and financial condition. 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 as substitutes for or superior to, measures of financial performance prepared in accordance with GAAP. The Company's definitions of these measures may differ from similarly titled measures used by other entities.

Reconciliation of Non-GAAP Adjusted Net Income and Earnings Per Share

Management uses the non-GAAP adjusted net income metric to evaluate the Company's operating performance. Management excludes the items listed in the table below because they are non-operational items. The cumulative tax effect was calculated using the statutory tax rates for the jurisdictions in which the noted transactions occurred.

	Three Months Ended			
(In millions, except per share amounts)	March 31, 2023		March 31, 2022	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Net Income Attributable to the Company as Reported	**$ 16.1**	**$ 0.70**	**$ 44.8**	**$ 1.93**
Deferred Compensation (Income) Expense (including related investment activity)	(0.1)	—	(5.2)	(0.22)
Business Restructuring	0.1	—	—	—
Cash Settled Stock Appreciation Rights	—	—	(0.5)	(0.02)
Remediation Expenses	0.4	0.01	0.3	0.01
Cumulative Tax Effect on Above Adjustment Items	(0.1)	—	1.3	0.06
Adjusted Net Income	$ 16.4	$ 0.71	$ 40.7	$ 1.76

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.

(In millions)	March 31, 2023	December 31, 2022
Current Maturities of Long-Term Debt as Reported	$ 257.3	$ 132.1
Long-Term Debt as Reported	453.7	455.0
Total Debt as Reported	711.0	587.1
Less Cash and Cash Equivalents as Reported	(127.0)	(173.8)
Net Debt	$ 584.0	$ 413.3
Equity	$ 1,189.9	$ 1,166.1
Net Debt plus Equity	$ 1,773.9	$ 1,579.4
Net Debt/Net Debt plus Equity	33 %	26 %

Item 3 – Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes to the market risks described in the Company's 2022 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 March 31, 2023. 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 March 31, 2023, 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 March 31, 2023 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

SEC regulations require the Company to disclose certain information about administrative or judicial proceedings involving certain environmental matters to which a governmental authority is a party if the Company reasonably believes that such proceedings may result in monetary sanctions above a specified threshold. Pursuant to SEC regulations, the Company has adopted a threshold of $1.0 million for purposes of determining whether disclosure of any such proceedings is required. The Company believes that this threshold is reasonably designed to result in disclosure of any such proceedings that are material to its business or financial condition. Applying this threshold, there are no new environmental proceedings for the period covered by this report to disclose.

In addition, there have been no material changes to the legal proceedings disclosed in the Company's 2022 Annual Report on Form 10-K.

Item 1A – Risk Factors

There have been no material changes to the risk factors disclosed in the Company's 2022 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 purchase by the Company during the first quarter of 2023:

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)]	Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs [(1)]
January 2023	1,798	(2)	$ 106.11	—	$ 125,050,905
February 2023	26,858	(3)	$ 110.83	—	$ 125,050,905
March 2023	11,745	(4)	$ 104.97	—	$ 125,050,905
Total	40,401		$ 108.92	—	$ 125,050,905

(1) On October 20, 2021, the Company announced that its Board of Directors had authorized the Company to repurchase up to $150,000,000 of its outstanding common stock. Under this program, which does not have an expiration date, repurchases may be made from time to time through open market transactions, privately negotiated transactions or a combination of the foregoing, subject to applicable laws.

(2) Includes 1,456 and 342 shares of Company common stock surrendered by employees to settle statutory withholding taxes related to the distribution of restricted stock units and the exercise of stock appreciation rights, respectively.

(3) Includes 8,559, 17,713 and 586 shares of Company common stock surrendered by employees to settle statutory withholding taxes related to the distribution of deferred management incentive compensation, the distribution of deferred performance shares and the exercise of stock appreciation rights, respectively.

(4) Represents shares of Company common stock surrendered by employees to settle statutory withholding taxes related to the distribution of performance shares.

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
10.1+	–	Form of Appreciation Rights Agreement under the Stepan Company 2022 Equity Incentive Compensation Plan
10.2+	–	Form of Nonqualified Stock Option Agreement under the Stepan Company 2022 Equity Incentive Compensation Plan
10.3+	–	Form of Performance Shares Agreement under the Stepan Company 2022 Equity Incentive Compensation Plan
10.4+	–	Form of Restricted Stock Units Agreement under the Stepan Company 2022 Equity Incentive Compensation Plan

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
101.PRE	–	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	–	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

+ Management contract or compensatory plan

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: May 4, 2023

/s/ Luis E. Rojo

Luis E. Rojo

Vice President and Chief Financial Officer

Exhibit 10.1

STEPAN COMPANY
2022 EQUITY INCENTIVE COMPENSATION PLAN

NOTICE OF GRANT OF APPRECIATION RIGHTS

Stepan Company (the "***Company***") hereby grants to the Participant Appreciation Rights under the Stepan Company 2022 Equity Incentive Compensation Plan (the "***Plan***"). The Appreciation Rights are subject to all of the terms and conditions in this Notice of Grant of Appreciation Rights (this "***Grant Notice***"), in the Appreciation Rights Agreement attached hereto (the "***Agreement***") and in the Plan. Capitalized terms used, but not otherwise defined, in this Grant Notice will have the meanings given to such terms in the Plan or Agreement, as applicable, and the Plan and Agreement are hereby incorporated by reference into this Grant Notice. If there are any inconsistences between this Grant Notice or the Agreement and the Plan, the terms of the Plan shall govern.

Participant:	[___]
Type of Grant:	Appreciation Rights
Date of Grant:	[____]
Number of Stock Appreciation Rights:	[____]
Base Price:	[____]
SAR Expiration Date:	[____]
Vesting Schedule:	Subject to the conditions set forth in the Agreement, including but not limited to the Participant's continuous employment with the Company or a Subsidiary until the applicable vesting date, the Appreciation Rights shall vest and become exercisable **[in three substantially equal installments on the first three anniversaries of the Date of Grant]**.

STEPAN COMPANY
2022 EQUITY INCENTIVE COMPENSATION PLAN

APPRECIATION RIGHTS AGREEMENT

Stepan Company (the "***Company***") has granted, pursuant to the Stepan Company 2022 Equity Incentive Compensation Plan (the "***Plan***"), to the Participant named in the Notice of Grant of Appreciation Rights (the "***Grant Notice***") to which this Appreciation Rights Agreement is attached (together with the Grant Notice, this "***Agreement***") the number of Appreciation Rights set forth in the Grant Notice, subject to the terms and conditions set forth in this Agreement.

1. **Certain Definitions**. Capitalized terms used, but not otherwise defined, in this Agreement will have the meanings given to such terms in the Plan.

2. **Grant of Appreciation Rights**. Subject to and upon the terms, conditions and restrictions set forth in this Agreement and in the Plan, the Company has granted to the Participant, as of the Date of Grant, the number of Appreciation Rights set forth in the Grant Notice (the "***SARs***") at the Base Price specified therein. The Base Price represents at least the Market Value per Share on the Date of Grant.

3. **Vesting of SARs**.

(a) The SARs shall vest and become exercisable ("***Vest***," or "***Vested***") as set forth in the Grant Notice if the Participant remains continuously employed by the Company or a Subsidiary in accordance with the Vesting Schedule set forth in the Grant Notice (the period from the Date of Grant until the last vesting date of the Vesting Schedule, the "***Vesting Period***").

(b) Any portion of the SARs that does not become Vested will be forfeited, including if the Participant ceases to be continuously employed by the Company or a Subsidiary prior to the end of the Vesting Period. For purposes of this Agreement, "continuously employed" (or substantially similar terms) means the absence of any interruption or termination of the Participant's employment with the Company or a Subsidiary; provided, however, that the Participant's employment shall not be considered interrupted or terminated if, immediately following the Participant's service as an employee, the Participant continues providing services as a non-employee Director or material services to the Company or a Subsidiary as a consultant. Continuous employment shall not be considered interrupted or terminated in the case of sick leave, military leave or any other leave of absence approved by the Company or in the case of transfers between locations of the Company and its Subsidiaries.

(c) Notwithstanding **Section 3(b)**, in the event that the Participant's employment with the Company or a Subsidiary is terminated by the Company as a result of (i) the Participant becoming disabled or (ii) the Participant's death, then in any such case, the SARs shall become fully Vested as of the date of the Participant's termination of employment with the Company or a Subsidiary.

(d) Notwithstanding **Section 3(b)**, in the event that the Participant's employment with the Company or a Subsidiary is terminated by the Participant due to retirement (as determined under the provisions of any qualified retirement plan that may be maintained by the Company or a Subsidiary), then a prorated portion (equal to (x) the product of (i) the number of SARs granted hereunder, multiplied by (ii) a fraction, the numerator of which is the number of whole months following the Date of Grant during which the Participant was employed by the Company or a Subsidiary, and the denominator of which is **[thirty-six (36)]**, with the result then rounded up or down to the nearest whole number, minus (y) any SARs granted hereunder that have already vested) of the SARs shall become fully Vested as of the date of the Participant's termination of employment with the Company or a Subsidiary.

4. **Right To Exercise; Termination of the SARs**. Any portion of the SARs that becomes Vested in accordance with **Section 3** shall remain exercisable until, and shall terminate on, the earliest of the following dates:

(a) Three (3) months after the Participant's employment with the Company is terminated for any reason, unless such termination of employment (i) is due to the Participant's death, disability or retirement (as determined under the provisions of any qualified retirement plan that may be maintained by the Company or a Subsidiary) or (ii) is a result of a termination for Cause as described in **Section 4(b)**; provided, however, that if there are no open trading days under the Company's Insider Trading Policy during such three (3) month post-termination exercise period, then such exercise period shall be extended by an additional thirty (30) days (subject to **Sections 4(c)** and **4(d)** below);

(b) The date of termination of the Participant's employment by the Company or any Subsidiary for Cause;

(c) The SAR Expiration Date set forth in the Grant Notice; or

(d) Ten (10) years from the Date of Grant.

For the avoidance of doubt, any portion of the SARs that remains outstanding, whether or not Vested, will terminate immediately on the tenth anniversary of the Date of Grant.

5. **Exercise of SARs**. To the extent exercisable, the SARs may be exercised in whole or in part from time to time by the Participant giving written notice to the Company or its third party administrator specifying the number of SARs with respect to which the Participant elects to exercise such right and the exercise date. Upon exercise, the SARs will be settled in a number of Common Shares equal in value to the excess of the fair market value per Common Share on the date of exercise over the Base Price, multiplied by the number of SARs exercised. An exercise may be disallowed if, as determined by the Company, it is not made in compliance with any applicable provisions of the Company's Insider Trading Policy as in effect from time to time. For the avoidance of doubt, in no event shall the Participant be entitled to receive payment for the SARs in any form other than Common Shares, and under no circumstance shall the Participant be entitled to receive a cash payment or any other security under this Agreement.

6. **Transferability, Binding Effect**. Subject to Section 15 of the Plan, the SARs are not transferable by the Participant otherwise than by will or the laws of descent and distribution, and in no event shall the SARs be transferred for value.

7. **No Dividend Equivalents**. The Participant shall not be entitled to dividends or dividend equivalents with respect to the SARs or the Common Shares underlying the SARs until such Common Shares are issued after the exercise of the SARs (or a portion thereof).

8. **Adjustments**. The number of Common Shares issuable subject to the SARs and the other terms and conditions of the grant evidenced by this Agreement are subject to mandatory adjustment, including as provided in Section 11 of the Plan.

9. **Taxes and Withholding**. To the extent that the Company or any Subsidiary is required to withhold federal, state, local or foreign taxes or other amounts in connection with the delivery to the Participant of Common Shares or any other payment to the Participant or any other payment or vesting event under this Agreement, the Participant agrees that the Company will withhold or collect from the Participant any taxes required to be withheld by the Company under federal, state, local or foreign law as a result of the payment of the SARs, including by withholding and retaining a portion of the Common Shares to be delivered to the Participant upon the payment of such SARs under this Agreement (which share withholding, for any "officers" (for purposes of Section 16 of the Exchange Act), will be the method of withholding unless otherwise determined by the Committee). In any event, it shall be a condition to the obligation of the Company to make any such delivery or payment that the Participant make arrangements satisfactory to the Company for payment of such taxes or other amounts required to be withheld. Any Common Shares retained by the Company as set forth above shall be credited against any such withholding requirement at the fair market value of the Common Shares on the date of such delivery. In no event will the total fair market value of the Common Shares to be withheld and/or delivered pursuant to this **Section 9** to satisfy applicable withholding taxes exceed the maximum amount of taxes or other amounts that could be required to be withheld. Notwithstanding any other provision of this Agreement, the Company shall not be obligated to guarantee any particular tax result for the Participant with respect to any payment provided to the Participant hereunder, and the Participant shall be responsible for any taxes imposed on the Participant with respect to any such payment.

10.**Compliance with Law**. The Company shall make reasonable efforts to comply with all applicable federal and state securities laws; provided, however, notwithstanding any other provision of the Plan and this Agreement, the Company shall not be obligated to issue any Common Shares pursuant to this Agreement if the issuance thereof would result in a violation of any such law. The SARs shall not be exercisable if such exercise would involve a violation of any law.

11.**No Right to Future Awards or Employment**. The Appreciation Rights award is a voluntary, discretionary award being made on a one-time basis and it does not constitute a commitment to make any future awards. The Appreciation Rights award and any related payments made to the Participant will not be considered salary or other compensation for purposes of any severance pay or similar allowance, except as otherwise required by law. Nothing contained in this Agreement will confer upon the Participant any right to be employed or remain employed by the Company or any of its Subsidiaries, nor limit or affect in any manner the right of the Company or any of its Subsidiaries to terminate the Participant's employment or adjust the compensation of the Participant.

12.**Relation to Other Benefits**. Any economic or other benefit to the Participant under this Agreement or the Plan shall not be taken into account in determining any benefits to which the Participant may be entitled under any profit-sharing, retirement or other benefit or compensation plan maintained by the Company or any of its Subsidiaries and shall not affect the amount of any life insurance coverage available to any beneficiary under any life insurance plan covering employees of the Company or any of its Subsidiaries.

13.**Amendments**. Any amendment to the Plan shall be deemed to be an amendment to this Agreement to the extent that the amendment is applicable hereto; provided, however, that no amendment shall adversely affect the Participant's rights with respect to the SARs without the Participant's consent, and the Participant's consent shall not be required to an amendment that is deemed necessary by the Company to ensure compliance with Section 10D of the Exchange Act.

14.**Severability**. In the event that one or more of the provisions of this Agreement shall be invalidated for any reason by a court of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions hereof, and the remaining provisions hereof shall continue to be valid and fully enforceable.

15.**Relation to Plan**. The SARs granted under this Agreement and all of the terms and conditions hereof are subject to all of the terms and conditions of the Plan. In the event of any inconsistency between this Agreement and the Plan, the terms of the Plan will govern. The Committee acting pursuant to the Plan, as constituted from time to time, shall, except as expressly provided otherwise herein or in the Plan, have the right to determine any questions which arise in connection with this Agreement.

16.**Recoupment**. The SARs and any related benefit or compensation under this Agreement is subject to the applicable recoupment, recapture, clawback or recovery policy of the Company as adopted by the Board or the Committee and in effect from time to time. In addition, this Agreement may be amended at any time and from time to time by the Company without the consent or written agreement of the Participant to the extent necessary to comply with any recoupment, recapture, clawback or recovery policy of the Company adopted by the Board or the Committee to comply with Section 10D of the Exchange Act and any applicable rules or regulations promulgated by the Securities and Exchange Commission or any national securities exchange or national securities association on which the Stock may then be traded, as reasonably determined by the Board or the Committee in its sole discretion.

17.**Electronic Delivery**. The Company may, in its sole discretion, deliver any documents related to the SARs and the Participant's participation in the Plan, or future awards that may be granted under the Plan, by electronic means or request the Participant's consent to participate in the Plan by electronic means. The Participant hereby consents to receive such documents by electronic delivery and, if requested, agrees to participate in the Plan through an online or electronic system established and maintained by the Company or another third party designated by the Company.

18.**Governing Law.** This Agreement shall be governed by and construed with the internal substantive laws of the State of Delaware, without giving effect to any principle of law that would result in the application of the law of any other jurisdiction.

19.**Successors and Assigns**. Without limiting **Section 6** hereof, the provisions of this Agreement shall inure to the benefit of, and be binding upon, the successors, administrators, heirs, legal representatives and assigns of the Participant, and the successors and assigns of the Company.

20.**Acknowledgement**. The Participant acknowledges that the Participant (a) has received a copy of the Plan, (b) has had an opportunity to review the terms of this Agreement and the Plan, (c) understands the terms and conditions of this Agreement and the Plan and (d) agrees to such terms and conditions.

21.**Counterparts**. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same agreement.

[Signature Page Follows]

IN WITNESS WHEREOF, the undersigned have executed this Agreement on the day and year indicated below.

STEPAN COMPANY

By:

Name:
Title:
Date:

Participant Acknowledgment and Acceptance

By:

Name:
Date:

Exhibit 10.2

STEPAN COMPANY
2022 EQUITY INCENTIVE COMPENSATION PLAN

NOTICE OF GRANT OF NONQUALIFIED STOCK OPTION

Stepan Company (the "***Company***") hereby grants to the Participant an Option Right (the "***Option***") to purchase the number of Common Shares set forth below under the Stepan Company 2022 Equity Incentive Compensation Plan (the "***Plan***"). The Option is subject to all of the terms and conditions in this Notice of Grant of Nonqualified Stock Option (this "***Grant Notice***"), in the Nonqualified Stock Option Agreement attached hereto (the "***Agreement***") and in the Plan. Capitalized terms used, but not otherwise defined, in this Grant Notice will have the meanings given to such terms in the Plan or Agreement, as applicable, and the Plan and Agreement are hereby incorporated by reference into this Grant Notice. If there are any inconsistences between this Grant Notice or the Agreement and the Plan, the terms of the Plan shall govern.

Participant:	[___]
Type of Grant:	Nonqualified Option Right
Date of Grant:	[____]
Number of Common Shares Subject to the Option:	[____]
Option Price:	[____]
Option Expiration Date:	[____]
Vesting Schedule:	Subject to the conditions set forth in the Agreement, including but not limited to the Participant's continuous employment with the Company or a Subsidiary until the applicable vesting date, Option shall vest and become exercisable **[in three substantially equal installments on the first three anniversaries of the Date of Grant]**.

STEPAN COMPANY
2022 EQUITY INCENTIVE COMPENSATION PLAN

NONQUALIFIED STOCK OPTION AGREEMENT

Stepan Company (the "***Company***") has granted, pursuant to the Stepan Company 2022 Equity Incentive Compensation Plan (the "***Plan***"), to the Participant named in the Notice of Grant of Nonqualified Stock Option (the "***Grant Notice***") to which this Nonqualified Stock Option Agreement is attached (together with the Grant Notice, this "***Agreement***") an Option to purchase the number of Common Shares set forth in the Grant Notice, subject to the terms and conditions set forth in this Agreement.

1. **Certain Definitions**. Capitalized terms used, but not otherwise defined, in this Agreement will have the meanings given to such terms in the Plan.

2. **Grant of Option**. Subject to and upon the terms, conditions and restrictions set forth in this Agreement and in the Plan, the Company has granted to the Participant, as of the Date of Grant, an Option to purchase the number of Common Shares set forth in the Grant Notice at the Option Price specified therein. The Option Price represents at least the Market Value per Share on the Date of Grant. The Option is intended to be a nonqualified stock option.

3. **Vesting of Option**.

(a) The Option shall vest and become exercisable ("***Vest***," or "***Vested***") as set forth in the Grant Notice if the Participant remains continuously employed by the Company or a Subsidiary in accordance with the Vesting Schedule set forth in the Grant Notice (the period from the Date of Grant until the last vesting date of the Vesting Schedule, the "***Vesting Period***").

(b) Any portion of the Option that does not become Vested will be forfeited, including if the Participant ceases to be continuously employed by the Company or a Subsidiary prior to the end of the Vesting Period. For purposes of this Agreement, "continuously employed" (or substantially similar terms) means the absence of any interruption or termination of the Participant's employment with the Company or a Subsidiary; provided, however, that the Participant's employment shall not be considered interrupted or terminated if, immediately following the Participant's service as an employee, the Participant continues providing services as a non-employee Director or material services to the Company or a Subsidiary as a consultant. Continuous employment shall not be considered interrupted or terminated in the case of sick leave, military leave or any other leave of absence approved by the Company or in the case of transfers between locations of the Company and its Subsidiaries.

(c) Notwithstanding **Section 3(b)**, in the event that the Participant's employment with the Company or a Subsidiary is terminated by the Company as a result of (i) the Participant becoming disabled or (ii) the Participant's death, then in any such case, the Option shall become fully Vested as of the date of the Participant's termination of employment with the Company or a Subsidiary.

(d) Notwithstanding **Section 3(b)**, in the event that the Participant's employment with the Company or a Subsidiary is terminated by the Participant due to retirement (as determined under the provisions of any qualified retirement plan that may be maintained by the Company or a Subsidiary), then a prorated portion (equal to (x) the product of (i) the number of Common Shares subject to the Option, multiplied by (ii) a fraction, the numerator of which is the number of whole months following the Date of Grant during which the Participant was employed by the Company or a Subsidiary, and the denominator of which is **[thirty-six (36)]**, with the result then rounded up or down to the nearest whole number, minus (y) any Common Shares subject to the Option granted hereunder that have already vested) of the Option shall become fully Vested as of the date of the Participant's termination of employment with the Company or a Subsidiary.

4. **Right To Exercise; Termination of the Option**. Any portion of the Option that becomes Vested in accordance with **Section 3** shall remain exercisable until, and shall terminate on, the earliest of the following dates:

(a) Three (3) months after the Participant's employment with the Company is terminated for any reason, unless such termination of employment (i) is due to the Participant's death, disability or retirement (as determined under the provisions of any qualified retirement plan that may be maintained by the Company or a Subsidiary) or (ii) is a result of a termination for Cause as described in **Section 4(b)**; provided, however, that if there are no open trading days under the Company's Insider Trading Policy during such three (3) month post-termination exercise period, then such exercise period shall be extended by an additional thirty (30) days (subject to **Sections 4(c)** and **4(d)** below);

(b) The date of termination of the Participant's employment by the Company or any Subsidiary for Cause;

(c) The Option Expiration Date set forth in the Grant Notice; or

(d) Ten (10) years from the Date of Grant.

For the avoidance of doubt, any portion of the Option that remains outstanding, whether or not Vested, will terminate immediately on the tenth anniversary of the Date of Grant.

5. **Exercise and Payment of Option**. To the extent exercisable, the Option may be exercised in whole or in part from time to time and will be settled in Common Shares by the Participant giving written notice to the Company or its third party administrator specifying the number of Common Shares for which the Option is to be exercised and paying the aggregate Option Price for such Common Shares. An exercise may be disallowed if, as determined by the Company, it is not made in compliance with any applicable provisions of the Company's Insider Trading Policy as in effect from time to time. Payment of the Option Price by the Participant shall be (a) in cash, by check acceptable to the Company or by wire transfer of immediately available funds, (b) by the actual or constructive transfer to the Company of Common Shares owned by the Participant having a value at the time of exercise equal to the total Option Price, (c) subject to any conditions or limitations established by the Board or the Committee, by the withholding of Common Shares otherwise issuable upon exercise of the Option pursuant to a "net exercise"

arrangement, (d) by a combination of such methods of payment, or (e) by such other methods as may be approved by the Board or the Committee.

6. **Transferability, Binding Effect**. Subject to Section 15 of the Plan, the Option is not transferable by the Participant otherwise than by will or the laws of descent and distribution, and in no event shall the Option be transferred for value.

7. **No Dividend Equivalents**. The Participant shall not be entitled to dividends or dividend equivalents with respect to the Option or the Common Shares underlying the Option until such Common Shares are issued after the exercise of the Option (or portion thereof).

8. **Adjustments**. The number of Common Shares issuable subject to the Option and the other terms and conditions of the grant evidenced by this Agreement are subject to mandatory adjustment, including as provided in Section 11 of the Plan.

9. **Taxes and Withholding**. To the extent that the Company or any Subsidiary is required to withhold federal, state, local or foreign taxes or other amounts in connection with any payment made to or benefit realized by the Participant or other person under the Option, the Participant agrees that the Company will withhold or collect from the Participant any taxes or other amounts required to be withheld by the Company under federal, state, local or foreign law as a result of such payment or benefit. In any event, it shall be a condition to the obligation of the Company to make any such delivery or payment that the Participant or such other person make arrangements satisfactory to the Company for payment of the balance of such taxes or other amounts required to be withheld. Notwithstanding any other provision of this Agreement, the Company shall not be obligated to guarantee any particular tax result for the Participant with respect to any payment provided to the Participant hereunder, and the Participant shall be responsible for any taxes imposed on the Participant with respect to any such payment.

10. **Compliance with Law**. The Company shall make reasonable efforts to comply with all applicable federal and state securities laws; provided, however, notwithstanding any other provision of the Plan and this Agreement, the Company shall not be obligated to issue any Common Shares pursuant to this Agreement if the issuance thereof would result in a violation of any such law. The Option shall not be exercisable if such exercise would involve a violation of any law.

11. **No Right to Future Awards or Employment**. The Option award is a voluntary, discretionary award being made on a one-time basis and it does not constitute a commitment to make any future awards. The Option award and any related payments made to the Participant will not be considered salary or other compensation for purposes of any severance pay or similar allowance, except as otherwise required by law. Nothing contained in this Agreement will confer upon the Participant any right to be employed or remain employed by the Company or any of its Subsidiaries, nor limit or affect in any manner the right of the Company or any of its Subsidiaries to terminate the Participant's employment or adjust the compensation of the Participant.

12. **Relation to Other Benefits**. Any economic or other benefit to the Participant under this Agreement or the Plan shall not be taken into account in determining any benefits to which the Participant may be entitled under any profit-sharing, retirement or other benefit or

compensation plan maintained by the Company or any of its Subsidiaries and shall not affect the amount of any life insurance coverage available to any beneficiary under any life insurance plan covering employees of the Company or any of its Subsidiaries.

13.**Amendments**. Any amendment to the Plan shall be deemed to be an amendment to this Agreement to the extent that the amendment is applicable hereto; provided, however, that no amendment shall adversely affect the Participant's rights with respect to the Option without the Participant's consent, and the Participant's consent shall not be required to an amendment that is deemed necessary by the Company to ensure compliance with Section 10D of the Exchange Act.

14.**Severability**. In the event that one or more of the provisions of this Agreement shall be invalidated for any reason by a court of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions hereof, and the remaining provisions hereof shall continue to be valid and fully enforceable.

15.**Relation to Plan**. The Option granted under this Agreement and all of the terms and conditions hereof are subject to all of the terms and conditions of the Plan. In the event of any inconsistency between this Agreement and the Plan, the terms of the Plan will govern. The Committee acting pursuant to the Plan, as constituted from time to time, shall, except as expressly provided otherwise herein or in the Plan, have the right to determine any questions which arise in connection with this Agreement.

16.**Recoupment**. The Option and any related benefit or compensation under this Agreement is subject to the applicable recoupment, recapture, clawback or recovery policy of the Company as adopted by the Board or the Committee and in effect from time to time. In addition, this Agreement may be amended at any time and from time to time by the Company without the consent or written agreement of the Participant to the extent necessary to comply with any recoupment, recapture, clawback or recovery policy of the Company adopted by the Board or the Committee to comply with Section 10D of the Exchange Act and any applicable rules or regulations promulgated by the Securities and Exchange Commission or any national securities exchange or national securities association on which the Stock may then be traded, as reasonably determined by the Board or the Committee in its sole discretion.

17.**Electronic Delivery**. The Company may, in its sole discretion, deliver any documents related to the Option and the Participant's participation in the Plan, or future awards that may be granted under the Plan, by electronic means or request the Participant's consent to participate in the Plan by electronic means. The Participant hereby consents to receive such documents by electronic delivery and, if requested, agrees to participate in the Plan through an online or electronic system established and maintained by the Company or another third party designated by the Company.

18.**Governing Law.** This Agreement shall be governed by and construed with the internal substantive laws of the State of Delaware, without giving effect to any principle of law that would result in the application of the law of any other jurisdiction.

19.**Successors and Assigns**. Without limiting **Section 6** hereof, the provisions of this Agreement shall inure to the benefit of, and be binding upon, the successors, administrators, heirs, legal representatives and assigns of the Participant, and the successors and assigns of the Company.

20.**Acknowledgement**. The Participant acknowledges that the Participant (a) has received a copy of the Plan, (b) has had an opportunity to review the terms of this Agreement and the Plan, (c) understands the terms and conditions of this Agreement and the Plan and (d) agrees to such terms and conditions.

21.**Counterparts**. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same agreement.

[Signature Page Follows]

IN WITNESS WHEREOF, the undersigned have executed this Agreement on the day and year indicated below.

STEPAN COMPANY

By:

Name:
Title:
Date:

Participant Acknowledgment and Acceptance

By:

Name:
Date:

Exhibit 10.3

STEPAN COMPANY
2022 EQUITY INCENTIVE COMPENSATION PLAN

NOTICE OF GRANT OF PERFORMANCE SHARES

Stepan Company (the "***Company***") hereby grants to the Participant the target number of Performance Shares set forth below under the Stepan Company 2022 Equity Incentive Compensation Plan (the "***Plan***"). The Performance Shares are subject to all of the terms and conditions in this Notice of Grant of Performance Shares (this "***Grant Notice***"), in the Performance Shares Agreement attached hereto (the "***Agreement***") and in the Plan. Capitalized terms used, but not otherwise defined, in this Grant Notice will have the meanings given to such terms in the Plan or Agreement, as applicable, and the Plan and Agreement are hereby incorporated by reference into this Grant Notice. If there are any inconsistences between this Grant Notice or the Agreement and the Plan, the terms of the Plan shall govern.

Participant:	[___]
Type of Grant:	Performance Shares
Date of Grant:	[___]
Total Target Number of Performance Shares:	[___]
One-Year Performance Period:	January 1, 20__ through December 31, 20__
Three-Year Performance Period:	January 1, 20__ through December 31, 20__
Potential Payout %:	From 0% to 195%
Vesting Schedule:	Subject to the terms and conditions set forth in the Agreement and in the Statement of Performance Goals, the Performance Shares shall become earned ("***Earned Performance Shares***") to the extent that the performance goals for the Performance Shares are achieved, as set forth or contemplated in the Statement of Performance Goals, provided (except as otherwise provided in the Agreement) that the Participant has remained in continuous employment with the Company or a Subsidiary through the last day of the Three-Year Performance Period.

STEPAN COMPANY
2022 EQUITY INCENTIVE COMPENSATION PLAN

PERFORMANCE SHARES AGREEMENT

Stepan Company (the "***Company***") has granted, pursuant to the Stepan Company 2022 Equity Incentive Compensation Plan (the "***Plan***"), to the Participant named in the Notice of Grant of Performance Shares (the "***Grant Notice***") to which this Performance Shares Agreement is attached (together with the Grant Notice, this "***Agreement***") an award of Performance Shares as set forth in such Grant Notice, subject to the terms and conditions set forth in this Agreement.

1. **Certain Definitions**. Capitalized terms used, but not otherwise defined, in this Agreement will have the meanings given to such terms in the Grant Notice, or, if not defined therein, then in the Plan.

2. **Grant of Performance Shares**. Subject to and upon the terms, conditions and restrictions set forth in this Agreement and in the Plan, the Company has granted to the Participant, as of the Date of Grant, the target number of Performance Shares set forth in the Grant Notice. Each earned and vested Performance Share shall represent the right of the Participant to receive one Common Share subject to and upon the terms and conditions of this Agreement, the Plan and the achievement of the Management Objectives approved by the Committee.

3. **Restrictions on Transfer of Performance Shares**. Subject to Section 15 of the Plan, neither the Performance Shares evidenced hereby nor any interest therein or in the Common Shares underlying such Performance Shares shall be transferable prior to payment to the Participant pursuant to **Section 5** hereof other than by will or pursuant to the laws of descent and distribution.

4. **Vesting of Performance Shares**.

   (a) General Rule. The Performance Shares shall be subject to the terms of the Statement of Performance Goals provided to the Participant with respect to the Performance Shares and approved by the Committee. As set forth in the Grant Notice, Earned Performance Shares will be determined for the Performance Shares in accordance with the Statement of Performance Goals on the date on which the Committee determines the level of attainment of the performance goals for the Performance Shares (the "***Determination Date***"). The Determination Date for the Performance Shares shall occur no later than 2 ½ months after the end of the Three-Year Performance Period. Provided that the Participant remains continuously employed with the Company or a Subsidiary through the last day of the Three-Year Performance Period (the period from the first day through the last day of the Three-Year Performance Period, the "***Service Period***"), the total Earned Performance Shares shall vest on the Determination Date. Any Performance Shares that do not so become vested will be forfeited, including, except as provided in **Section 4(b)** below, if the Participant ceases to be continuously employed by the Company or a Subsidiary prior to the end of the Service Period. For purposes of this Agreement, "continuously employed" (or substantially similar terms) means the absence of any interruption or termination of the Participant's employment with the Company or a Subsidiary; provided, however, that the Participant's employment shall not be considered interrupted or terminated if, immediately following the Participant's service as an employee, the Participant continues providing services as a non-employee Director or material services to the Company or a Subsidiary as a consultant. Continuous employment shall not be considered interrupted or terminated in the case of sick leave, military leave or any other leave of absence approved by the Company or in the case of transfers between locations of the Company and its Subsidiaries.

(b) Special Circumstances.

(i) Notwithstanding **Section 4(a)** above and except as otherwise provided in an agreement between the Company and the Participant or in any plan or arrangement in which the Participant is a participant, if the Participant ceases to be employed by the Company or a Subsidiary prior to the end of the Service Period by reason of (A) the Participant's death or (B) a termination by the Company due to the Participant becoming disabled then the Performance Shares will remain outstanding and have an opportunity to vest and become payable to the Participant depending on the level at which the performance goals are satisfied, in accordance with **Section 5** below.

(ii) Notwithstanding **Section 4(a)** above and except as otherwise provided in an agreement between the Company and the Participant or in any plan or arrangement in which the Participant is a participant, if the Participant ceases to be employed by the Company or a Subsidiary prior to the end of the Service Period by reason of the Participant's retirement (as determined under the provisions of any qualified retirement plan maintained by the Company or a Subsidiary), then a prorated portion (equal to the product of (A) the number of Performance Shares granted hereunder, multiplied by (B) a fraction, the numerator of which is the number of whole months during the Service Period during which the Participant was employed by the Company or a Subsidiary, and the denominator of which is thirty-six (36), with the result then rounded up or down to the nearest whole number of shares) of the Performance Shares will remain outstanding and have an opportunity to vest and become payable to the Participant depending upon the level at which the performance goals are satisfied, in accordance with **Section 5** below.

5. **Form and Time of Payment of Performance Shares**.

(a) Payment for the Performance Shares, after and to the extent they have become vested and nonforfeitable, shall be made in the form of Common Shares.

(b) Payment of the Performance Shares shall be made between January 1 and March 15 of the calendar year following the calendar year in which the Three-Year Performance Period ends.

(c) In all events, payment for the Performance Shares (to the extent vested) shall be made within the short-term deferral period for purposes of Section 409A of the Code.

(d) The Company's obligations to the Participant with respect to the Performance Shares will be satisfied in full upon the issuance of Common Shares corresponding to such Performance Shares.

6. **No Dividend Equivalents; Voting and Other Rights**.

(a) The Participant shall have no rights of ownership in the Common Shares underlying the Performance Shares and no right to vote the Common Shares underlying the Performance Shares until the date on which the Common Shares underlying the Performance Shares are issued or transferred to the Participant pursuant to **Section 5** above.

(b) The Participant shall not be entitled to, nor credited with, dividends or dividend equivalents with respect to the Performance Shares.

(c) The obligations of the Company under this Agreement will be merely that of an unfunded and unsecured promise of the Company to deliver Common Shares in the future, and the rights of the Participant will be no greater than that of an unsecured general creditor. No assets of the Company will be held or set aside as security for the obligations of the Company under this Agreement.

7. **Adjustments**. The Performance Shares and the number of Common Shares issuable for each Performance Share and the other terms and conditions of the grant evidenced by this Agreement are subject to adjustment, including as provided in Section 11 of the Plan.

8. **Taxes and Withholding**. To the extent that the Company or any Subsidiary is required to withhold federal, state, local or foreign taxes or other amounts in connection with the delivery to the Participant of Common Shares or any other payment to the Participant or any other payment or vesting event under this Agreement, the Participant agrees that the Company will withhold or collect from the Participant any taxes required to be withheld by the Company under federal, state, local or foreign law as a result of the settlement of the Performance Shares, including by withholding and retaining a portion of the Common Shares to be delivered to the Participant upon settlement of the Performance Shares under this Agreement (which share withholding, for any "officers" (for purposes of Section 16 of the Exchange Act), will be the method of withholding unless otherwise determined by the Committee). In any event, it shall be a condition to the obligation of the Company to make any such delivery or payment that the Participant make arrangements satisfactory to the Company for payment such taxes or other amounts required to be withheld. Any Common Shares retained by the Company as set forth above shall be credited against any such withholding requirement at the fair market value of the Common Shares on the date of such

delivery. In no event will the total fair market value of the Common Shares to be withheld and/or delivered pursuant to this **Section 8** to satisfy applicable withholding taxes exceed the maximum amount of taxes or other amounts that could be required to be withheld. Notwithstanding any other provision of this Agreement, the Company shall not be obligated to guarantee any particular tax result for the Participant with respect to any payment provided to the Participant hereunder, and the Participant shall be responsible for any taxes imposed on the Participant with respect to any such payment.

9. **Compliance with Law**. The Company shall make reasonable efforts to comply with all applicable federal and state securities laws; provided, however, notwithstanding any other provision of the Plan and this Agreement, the Company shall not be obligated to issue any Common Shares pursuant to this Agreement if the issuance thereof would result in a violation of any such law.

10. **Compliance With or Exemption From Section 409A of the Code**. To the extent applicable, it is intended that this Agreement and the Plan comply with or be exempt from the provisions of Section 409A of the Code. This Agreement and the Plan shall be administered in a manner consistent with this intent, and any provision that would cause this Agreement or the Plan to fail to satisfy Section 409A of the Code shall have no force or effect until amended to comply with or be exempt from Section 409A of the Code (which amendment may be retroactive to the extent permitted by Section 409A of the Code and may be made by the Company without the consent of the Participant). Notwithstanding the foregoing, the Company is not guaranteeing any particular tax outcome, and the Participant shall remain solely liable for any and all tax consequences associated with the Performance Shares.

11. **Interpretation**. Any reference in this Agreement to Section 409A of the Code will also include any proposed, temporary or final regulations, or any other guidance, promulgated with respect to such Section by the U.S. Department of the Treasury or the Internal Revenue Service.

12. **No Right to Future Awards or Employment**. The grant of the Performance Shares under this Agreement to the Participant is a voluntary, discretionary award being made on a one-time basis and it does not constitute a commitment to make any future awards. The grant of the Performance Shares and any related payments made hereunder will not be considered salary or other compensation for purposes of any severance pay or similar allowance, except as otherwise required by law. Nothing contained in this Agreement will confer upon the Participant any right to be employed or remain employed by the Company or any of its Subsidiaries, nor limit or affect in any manner the right of the Company or any of its Subsidiaries to terminate the Participant's employment or adjust the compensation of the Participant.

13. **Relation to Other Benefits**. Any economic or other benefit to the Participant under this Agreement or the Plan shall not be taken into account in determining any benefits to which the Participant may be entitled under any profit-sharing, retirement or other benefit or compensation plan maintained by the Company or any of its Subsidiaries and shall not

affect the amount of any life insurance coverage available to any beneficiary under any life insurance plan covering employees of the Company or any of its Subsidiaries.

14. **Amendments**. Any amendment to the Plan shall be deemed to be an amendment to this Agreement to the extent that the amendment is applicable hereto; provided, however, that no amendment shall adversely affect the Participant's rights with respect to the Performance Shares without the Participant's written consent, and the Participant's consent shall not be required to an amendment that is deemed necessary by the Company to ensure compliance with Section 409A of the Code or Section 10D of the Exchange Act.

15. **Severability**. In the event that one or more of the provisions of this Agreement shall be invalidated for any reason by a court of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions hereof, and the remaining provisions hereof shall continue to be valid and fully enforceable.

16. **Relation to Plan**. The Performance Shares granted under this Agreement and all of the terms and conditions hereof are subject to all of the terms and conditions of the Plan. In the event of any inconsistency between this Agreement and the Plan, the terms of the Plan will govern. The Committee acting pursuant to the Plan, as constituted from time to time, shall, except as expressly provided otherwise herein or in the Plan, have the right to determine any questions which arise in connection with this Agreement.

17. **Recoupment**. The Performance Shares and any related benefit or compensation under this Agreement is subject to the applicable recoupment, recapture, clawback or recovery policy of the Company as adopted by the Board or the Committee and in effect from time to time. In addition, this Agreement may be amended at any time and from time to time by the Company without the consent or written agreement of the Participant to the extent necessary to comply with any recoupment, recapture, clawback or recovery policy of the Company adopted by the Board or the Committee to comply with Section 10D of the Exchange Act and any applicable rules or regulations promulgated by the Securities and Exchange Commission or any national securities exchange or national securities association on which the Stock may then be traded, as reasonably determined by the Board or the Committee in its sole discretion.

18. **Electronic Delivery**. The Company may, in its sole discretion, deliver any documents related to the Performance Shares and the Participant's participation in the Plan, or future awards that may be granted under the Plan, by electronic means or request the Participant's consent to participate in the Plan by electronic means. The Participant hereby consents to receive such documents by electronic delivery and, if requested, agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company.

19. **Governing Law.** This Agreement shall be governed by and construed with the internal substantive laws of the State of Delaware, without giving effect to any principle of law that would result in the application of the law of any other jurisdiction.

20. **Successors and Assigns**. Without limiting **Section 3** hereof, the provisions of this Agreement shall inure to the benefit of, and be binding upon, the successors, administrators, heirs, legal representatives and assigns of the Participant, and the successors and assigns of the Company.

21. **Acknowledgement**. The Participant acknowledges that the Participant (a) has received a copy of the Plan, (b) has had an opportunity to review the terms of this Agreement and the Plan, (c) understands the terms and conditions of this Agreement and the Plan and (d) agrees to such terms and conditions.

22. **Counterparts**. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same agreement.

[SIGNATURES ON FOLLOWING PAGE]

STEPAN COMPANY

By: ___________________________

Name:
Title:

Participant Acknowledgment and Acceptance

By: ___________________________

Name:

Date: ____________________________

STATEMENT OF PERFORMANCE GOALS
FOR PERFORMANCE SHARES

This Statement of Performance Goals applies to the Performance Shares granted to the Participant on the Date of Grant and applies with respect to the Performance Shares Agreement between the Company and the Participant (the "***Agreement***").

23. Management Objectives. For purposes of this Award of Performance Shares, Management Objectives shall mean CNI and ROIC.

24. Definitions. Capitalized terms used in the Agreement that are not specifically defined in this Statement of Performance Goals have the meanings assigned to them in the Agreement or if not defined therein, in the Plan. For purposes of this Statement of Performance Goals:

(a) "***Applicable CNI Percentage***" means the CNI percentage (set by the Committee), which corresponds to the Company's achieved specified CNI for the One-Year Performance Period, with the final calculation achieved by prorating between the values and corresponding payout percentages assigned to the Threshold, Target and Maximum performance levels at set forth herein. The Applicable CNI Percentage will be zero if the Threshold level is not achieved during the One-Year Performance Period.

(b) "***Applicable ROIC Percentage***" means the ROIC percentage (set by the Committee), which ranges from 70% to 130% and corresponds to the Company's achieved specified average ROIC percentage for the Three-Year Performance Period, with the final calculation achieved by prorating between the values and corresponding payout percentages assigned to the Threshold, Target and Maximum performance levels at set forth herein.

(c) "***CNI***" means the Company's Net Income.

(d) "***ROIC***" means the Company's Return on Invested Capital

25. Performance Goals.

(a) CNI during the One-Year Performance Period:

Threshold (50% payout)	Target (100% payout)	Maximum and above (150% payout)

(b) ROIC during the Three-Year Performance Period:

Threshold and below	Target	Maximum and above

(70% payout)	(100% payout)	(130% payout)

26. Calculation of Earned Performance Shares. Except as otherwise provided in the Agreement, the number of Performance Shares that the Participant shall earn at the end of the Three-Year Performance Period (unless forfeited pursuant to the Agreement) shall equal: (a) the number of Performance Shares awarded in accordance with the Grant Notice, *multiplied by* (b) the Applicable CNI Percentage, *further multiplied by* (c) the Applicable ROIC Percentage. Any Performance Shares that the Participant does not earn at the end of the Three-Year Performance Period as determined by the Committee shall be deemed forfeited and cancelled at the end of the Three-Year Performance Period.

STEPAN COMPANY
2022 EQUITY INCENTIVE COMPENSATION PLAN

NOTICE OF GRANT OF RESTRICTED STOCK UNITS

Stepan Company (the "***Company***") hereby grants to the Participant Restricted Stock Units under the Stepan Company 2022 Equity Incentive Compensation Plan (the "***Plan***"). The Restricted Stock Units are subject to all of the terms and conditions in this Notice of Grant of Restricted Stock Units (this "***Grant Notice***"), in the Restricted Stock Units Agreement attached hereto (the "***Agreement***") and in the Plan. Capitalized terms used, but not otherwise defined, in this Grant Notice will have the meanings given to such terms in the Plan or Agreement, as applicable, and the Plan and Agreement are hereby incorporated by reference into this Grant Notice. If there are any inconsistences between this Grant Notice or the Agreement and the Plan, the terms of the Plan shall govern.

Participant:	[___]
Type of Grant:	Restricted Stock Units
Date of Grant:	[____]
Number of Restricted Stock Units:	[____]
Vesting Schedule:	Subject to the conditions set forth in the Agreement, including but not limited to the Participant's continuous employment with the Company or a Subsidiary until the applicable vesting date, the Restricted Stock Units shall vest **[in three substantially equal installments on the first three anniversaries of the Date of Grant]**.

STEPAN COMPANY
2022 EQUITY INCENTIVE COMPENSATION PLAN

RESTRICTED STOCK UNITS AGREEMENT

Stepan Company (the "***Company***") has granted, pursuant to the Stepan Company 2022 Equity Incentive Compensation Plan (the "***Plan***"), to the Participant named in the Notice of Grant of Restricted Stock Units (the "***Grant Notice***") to which this Restricted Stock Units Agreement is attached (together with the Grant Notice, this "***Agreement***") Restricted Stock Units (the "***RSUs***") as set forth in such Grant Notice, subject to the terms and conditions set forth in this Agreement.

1. **Certain Definitions**. Capitalized terms used, but not otherwise defined, in this Agreement will have the meanings given to such terms in Plan.

2. **Grant of RSUs**. Subject to and upon the terms, conditions and restrictions set forth in this Agreement and in the Plan, the Company has granted to the Participant as of the Date of Grant, the number of RSUs set forth on the Grant Notice. Each RSU shall represent the right of the Participant to receive one Common Share subject to and upon the terms and conditions of this Agreement.

3. **Restrictions on Transfer of RSUs**. Subject to Section 15 of the Plan, neither the RSUs evidenced hereby nor any interest therein or in the Common Shares underlying such RSUs shall be transferable prior to payment to the Participant pursuant to **Section 5** hereof other than by will or pursuant to the laws of descent and distribution.

4. **Vesting of RSUs**.

(a) Except as otherwise provided in this **Section 4**, the RSUs covered by this Agreement shall become nonforfeitable and payable to the Participant pursuant to **Section 5** hereof pursuant to the Vesting Schedule set forth in the Grant Notice if the Participant remains in the continuous employment of the Company or a Subsidiary until such date.

(b) Notwithstanding **Section 4(a)**, in the event that the Participant's employment with the Company or a Subsidiary is terminated by the Company as a result of (i) the Participant becoming disabled or (ii) the Participant's death, then in any such case, the RSUs shall become fully vested as of the date of the Participant's termination of employment with the Company or a Subsidiary.

(c) Notwithstanding **Section 4(a)**, in the event that the Participant's employment with the Company or a Subsidiary is terminated by the Participant due to retirement (as determined under the provisions of any qualified retirement plan that may be maintained by the Company or a Subsidiary), then a prorated portion (equal to (x) the product of (i) the number of RSUs granted hereunder, multiplied by (ii) a fraction, the numerator of which is the number of whole months following the Date of Grant during which the Participant was employed by the Company or a Subsidiary, and the denominator of which is **[thirty-six (36)]**, with the result then rounded up or down to the nearest whole number of shares, minus (y) any RSUs granted hereunder that have already vested) of the RSUs shall become fully vested as of the date of the Participant's termination of employment with the Company or a Subsidiary.

(d) Except as otherwise provided in this **Section 4,** any RSUs that do not so become nonforfeitable will be forfeited, including if the Participant ceases to be continuously employed by the Company or a Subsidiary prior to the end of the Vesting Period. For purposes of this Agreement, "continuously employed" (or substantially similar terms) means the absence of any interruption or termination of the Participant's employment with the Company or a Subsidiary; provided, however, that the Participant's employment shall not be considered interrupted or terminated if, immediately following the Participant's service as an employee, the Participant continues providing services as a non-employee Director or material services to the Company or a Subsidiary as a consultant. Continuous employment shall not be considered interrupted or terminated in the case of sick leave, military leave or any other leave of absence approved by the Company or in the case of transfers between locations of the Company and its Subsidiaries.

5. **Form and Time of Payment of RSUs**.

(a) Payment for the RSUs, after and to the extent they have become nonforfeitable, shall be made in the form of Common Shares. Payment shall be made as soon as administratively practicable following (but no later than thirty (30) days following) the first to occur of the following (to the extent that the RSUs have become nonforfeitable pursuant to **Section 4** hereof prior to such date):

(i) The date of the Participant's separation from service (within the meaning of Section 409A of the Code);

(ii) **[the first three anniversaries of the Date of Grant]**; and

(iii) The date of a Change in Control that also constitutes a "change in the ownership," "change in effective control," and/or a "change in the ownership of a substantial portion of assets" of the Company as those terms are defined under Treasury Regulation §1.409A-3(i)(5).

(b) Except to the extent provided by Section 409A of the Code and permitted by the Committee, no Common Shares may be issued to the Participant at a time earlier than otherwise expressly provided in this Agreement.

(c) The Company's obligations to the Participant with respect to the RSUs will be satisfied in full upon the issuance of Common Shares corresponding to such RSUs.

6. **Dividend Equivalents; Voting and Other Rights**.

(a) The Participant shall have no rights of ownership in the Common Shares underlying the RSUs and no right to vote the Common Shares underlying the RSUs until the date on which the Common Shares underlying the RSUs are issued or transferred to the Participant pursuant to **Section 5** above.

(b) The obligations of the Company under this Agreement will be merely that of an unfunded and unsecured promise of the Company to deliver Common Shares in the future, and the rights of the Participant will be no greater than that of an unsecured general creditor. No assets of the Company will be held or set aside as security for the obligations of the Company under this Agreement.

(c) From and after the Date of Grant and until the earlier of (i) the time when the RSUs become nonforfeitable and are paid in accordance with **Section 5** hereof or (ii) the time when the Participant's right to receive Common Shares in payment of the RSUs is forfeited in accordance with **Section 4** hereof, on the date that the Company pays a cash dividend (if any) to holders of Common Shares generally, the Participant shall be credited with cash per RSU equal to the amount of such dividend. Any amounts credited pursuant to the immediately preceding sentence shall be subject to the same applicable terms and conditions (including vesting, payment and forfeitability) as apply to the RSUs based on which the dividend equivalents were credited, and such amounts shall be paid in cash at the same time as the RSUs to which they relate are settled pursuant to **Section 5** above.

7. **Adjustments**. The RSUs and the number of Common Shares issuable for each RSU, and the other terms and conditions of the grant evidenced by this Agreement, are subject to mandatory adjustment, including as provided in Section 11 of the Plan.

8. **Taxes and Withholding**. To the extent that the Company or any Subsidiary is required to withhold federal, state, local or foreign taxes or other amounts in connection with the delivery to the Participant of Common Shares or any other payment to the Participant or any other payment or vesting event under this Agreement, the Participant agrees that the Company will withhold or collect from the Participant any taxes required to be withheld by the Company under federal, state, local or foreign law as a result of the settlement of the RSUs, including by withholding and retaining a portion of the Common Shares to be delivered to the Participant upon settlement of the RSUs under this Agreement (which share withholding, for any "officers" (for purposes of Section 16 of the Exchange Act), will be the method of withholding unless otherwise determined by the Committee). In any event, it shall be a condition to the obligation of the Company to make any such delivery or payment that the Participant make arrangements satisfactory to the Company for payment such taxes or other amounts required to be withheld. Any Common Shares retained by the Company as set forth above shall be credited against any such withholding requirement at the fair market value of the Common Shares on the date of such delivery. In no event will the total fair market value of the Common Shares to be withheld and/or delivered pursuant to this **Section 8** to satisfy applicable withholding taxes exceed the maximum amount of taxes or other amounts that could be required to be withheld. Notwithstanding any other provision of this Agreement, the Company shall not be obligated to guarantee any particular tax result for the Participant with respect to any payment provided to the Participant hereunder, and the Participant shall be responsible for any taxes imposed on the Participant with respect to any such payment.

9. **Compliance With Law**. The Company shall make reasonable efforts to comply with all applicable federal and state securities laws; provided, however, notwithstanding any other provision of the Plan and this Agreement, the Company shall not be obligated to issue any Common Shares pursuant to this Agreement if the issuance thereof would result in a violation of any such law.

10. **Compliance With or Exemption From Section 409A of the Code**. To the extent applicable, it is intended that this Agreement and the Plan comply with or be exempt from the provisions of Section 409A of the Code. This Agreement and the Plan shall be administered in a manner consistent with this intent, and any provision that would cause this Agreement or the Plan to fail to satisfy Section 409A of the Code shall have no force or effect until amended to comply with or be exempt from Section 409A of the Code (which amendment may be retroactive to the extent permitted by Section 409A of the Code and may be made by the Company without the consent of the Participant). Notwithstanding the foregoing, in no case will the Company be liable to the Participant, the Internal Revenue Service or any other person or entity for taxes imposed on the Participant pursuant to Section 409A of the Code.

11. **Interpretation**. Any reference in this Agreement to Section 409A of the Code will also include any proposed, temporary or final regulations, or any other guidance, promulgated with respect to such Section by the U.S. Department of the Treasury or the Internal Revenue Service.

12. **No Right to Future Awards or Employment**. The grant of the RSUs under this Agreement to the Participant is a voluntary, discretionary award being made on a one-time basis and it does not constitute a commitment to make any future awards. The grant of the RSUs and any payments made hereunder will not be considered salary or other compensation for purposes of any severance pay or similar allowance, except as otherwise required by law. Nothing contained in this Agreement shall confer upon the Participant any right to be employed or remain employed by the Company or any of its Subsidiaries, nor limit or affect in any manner the right of the Company or any of its Subsidiaries to terminate the employment or adjust the compensation of the Participant.

13. **Relation to Other Benefits**. Any economic or other benefit to the Participant under this Agreement or the Plan shall not be taken into account in determining any benefits to which the Participant may be entitled under any profit-sharing, retirement or other benefit or compensation plan maintained by the Company or any of its Subsidiaries and shall not affect the amount of any life insurance coverage available to any beneficiary under any life insurance plan covering employees of the Company or any of its Subsidiaries.

14. **Amendments**. Any amendment to the Plan shall be deemed to be an amendment to this Agreement to the extent that the amendment is applicable hereto; provided, however, that (a) no amendment shall adversely affect the rights of the Participant under this Agreement without the Participant's written consent, and (b) the Participant's consent shall not be required to an amendment that is deemed necessary by the Company to ensure compliance with Section 409A of the Code or Section 10D of the Exchange Act.

15.**Severability**. In the event that one or more of the provisions of this Agreement shall be invalidated for any reason by a court of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions hereof, and the remaining provisions hereof shall continue to be valid and fully enforceable.

16.**Relation to Plan**. This Agreement is subject to the terms and conditions of the Plan. In the event of any inconsistency between the provisions of this Agreement and the Plan, the Plan shall govern. The Committee acting pursuant to the Plan, as constituted from time to time, shall, except as expressly provided otherwise herein or in the Plan, have the right to determine any questions which arise in connection with this Agreement.

17.**Recoupment**. The RSUs and any related benefit or compensation under this Agreement is subject to the applicable recoupment, recapture, clawback or recovery policy of the Company as adopted by the Board or the Committee and in effect from time to time. In addition, this Agreement may be amended at any time and from time to time by the Company without the consent or written agreement of the Participant to the extent necessary to comply with any recoupment, recapture, clawback or recovery policy of the Company adopted by the Board or the Committee to comply with Section 10D of the Exchange Act and any applicable rules or regulations promulgated by the Securities and Exchange Commission or any national securities exchange or national securities association on which the Stock may then be traded, as reasonably determined by the Board or the Committee in its sole discretion.

18.**Electronic Delivery**. The Company may, in its sole discretion, deliver any documents related to the RSUs and the Participant's participation in the Plan, or future awards that may be granted under the Plan, by electronic means or request the Participant's consent to participate in the Plan by electronic means. The Participant hereby consents to receive such documents by electronic delivery and, if requested, agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company.

19.**Governing Law.** This Agreement shall be governed by and construed with the internal substantive laws of the State of Delaware, without giving effect to any principle of law that would result in the application of the law of any other jurisdiction.

20.**Successors and Assigns**. Without limiting **Section 3** hereof, the provisions of this Agreement shall inure to the benefit of, and be binding upon, the successors, administrators, heirs, legal representatives and assigns of the Participant, and the successors and assigns of the Company.

21.**Acknowledgement**. The Participant acknowledges that the Participant (a) has received a copy of the Plan, (b) has had an opportunity to review the terms of this Agreement and the Plan, (c) understands the terms and conditions of this Agreement and the Plan and (d) agrees to such terms and conditions.

22.**Counterparts**. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same agreement.

[SIGNATURES ON FOLLOWING PAGE]

STEPAN COMPANY

By: _________________________

Name:
Title:

Participant Acknowledgment and Acceptance

By: _________________________

Name:

Date: _________________________

Exhibit 31.1

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

I, Scott R. Behrens, 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: May 4, 2023

/s/ Scott R. Behrens

Scott R. Behrens
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: May 4, 2023

/s/ Luis E. Rojo

Luis E. Rojo
Vice President and Chief Financial Officer

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

In connection with the Quarterly Report of Stepan Company (the "Company") on Form 10-Q for the period ended March 31, 2023, 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: May 4, 2023

/s/ Scott R. Behrens
Name: Scott R. Behrens
Title: 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.