

STEPAN CO  
Form DEF 14A  
March 22, 2007

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

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the**  
**Securities Exchange Act of 1934**  
**(Amendment No. \_\_ )**

Filed by the Registrant  Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only** (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**STEPAN COMPANY**

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.

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Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

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(5) Total fee paid:

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Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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**STEPAN COMPANY**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To be held on April 24, 2007**

**at 9:00 a.m.**

To the Stockholders:

Notice is hereby given that the Annual Meeting of Stockholders of STEPAN COMPANY (the Company) will be held at the Company's Administrative and Research Center at Edens Expressway and Winnetka Road, Northfield, Illinois, on Tuesday, April 24, 2007, at 9:00 a.m., for the following purposes:

1. To elect one Director to the Board for a two-year term and three Directors to the Board for a three-year term.
2. To ratify the appointment of Deloitte & Touche LLP as the independent registered public accounting firm for the Company for 2007.
3. To transact such other business as may properly come before the meeting.

The Board of Directors has designated the close of business on February 23, 2007, as the record date for determining holders of 5 1/2% Convertible Preferred Stock and Common Stock entitled to notice of and to vote at the meeting.

Copies of the Company's Annual Report and the Form 10-K for the year 2006 are enclosed with this notice.

By order of the Board of Directors,

KATHLEEN M. OWENS

*Assistant Secretary*

Northfield, Illinois

March 22, 2007

**The Board of Directors of the Company extends a cordial invitation to all stockholders to be present at the meeting. Whether or not you plan to attend the meeting, please mark, sign and mail the enclosed proxy card in the return envelope provided as promptly as possible.**

March 22, 2007

**PROXY STATEMENT**  
**For the Annual Meeting of Stockholders of**  
**STEPAN COMPANY**

**Edens Expressway and Winnetka Road**

**Northfield, Illinois 60093**

**To be held at 9:00 a.m. on April 24, 2007**

The enclosed proxy is solicited by the Board of Directors of the Company, and the Company will bear the entire expense of solicitation. Such solicitation is being made by mail, and the Company's Officers and employees may solicit proxies from stockholders personally or by telephone or letter. Arrangements will be made with the brokers, custodians, nominees, or other fiduciaries who so request for the forwarding of solicitation material to the beneficial owners of stock held of record by such persons, and the Company will reimburse them for reasonable out-of-pocket expenses incurred by them in that connection.

At the close of business on February 23, 2007, the record date for the meeting, there were 572,854 shares of 5 1/2% Convertible Preferred Stock ( Preferred Stock ) outstanding, each share of which is convertible into 1.14175 shares of Common Stock and is entitled to 1.14175 votes on each matter to be voted on at the meeting, and, assuming the Preferred Stock were converted, there would be 9,892,577 shares of Common Stock outstanding, each share of which is entitled to one vote on each matter to be voted on at the meeting.

This proxy statement and proxy are being sent or given to stockholders commencing on or about March 22, 2007. Any proxy given pursuant to this solicitation may be revoked by the stockholder at any time prior to the voting of the proxy.

**ELECTION OF DIRECTORS**

The persons named in the enclosed Proxy will vote for the election of Mr. Gregory E. Lawton as a Director of the Company to hold office until the Annual Stockholders Meeting to be held in the year 2009, and for the election of Messrs. Robert G. Potter, F. Quinn Stepan and Edward J. Wehmer as Directors of the Company to hold office until the Annual Stockholders Meeting to be held in the year 2010.

The Board of Directors has recommended Mr. Lawton be elected for a two-year term in order to satisfy Rule 304 of the New York Stock Exchange regarding a classified Board of Directors. Such rule provides that for a classified Board of Directors, the classes should be of approximately equal size and tenure. Since the Company's Board of Directors is comprised of seven members divided into three classes, if all nominees are elected by the stockholders, the classes will be as follows: Class I (Messrs. Thomas F. Grojean and F. Quinn Stepan, Jr.), Class II (Messrs. Robert D. Cadieux and Gregory E. Lawton) and Class III (Messrs. Robert G. Potter, F. Quinn Stepan and Edward J. Wehmer).

Under the Company's Certificate of Incorporation and By-laws, Directors are elected by a plurality of the voting power of the shares of Preferred Stock and Common Stock present in person or represented by proxy at

the meeting and entitled to vote, voting together as a single class. The outcome of the election will not be affected by shares that withhold authority to vote in the election.

In the event any one or more of such nominees shall be unable to serve as Director, votes will be cast, pursuant to the authority granted in the enclosed Proxy, for such person or persons as may be designated by the Board of Directors. The Board of Directors at this time is not aware of any nominee who is or will be unable to serve as Director, if elected.

**PROPOSAL: The Board of Directors recommends that the stockholders vote FOR the election of the nominee Gregory E. Lawton for a two-year term and FOR the election of the nominees Robert G. Potter, F. Quinn Stepan and Edward J. Wehmer for a three-year term.**

**Nominees For Director**

The following table sets forth certain information about the nominees for Director:

Name of Nominee	Principal Occupation and Business Experience During the Past Five Years, Other Directorships and Age	Year of First Election as Director	Number and Percent of Shares of Common Stock Beneficially Owned(1)	
Gregory E. Lawton	Private Investor. President and Chief Executive Officer of JohnsonDiversey, Inc., a manufacturer of cleaning products, from October 2000 to February 2006. From January 1999 to September 2000, President and Chief Operating Officer of Johnson Wax Professional. President of NuTone, Inc., a subsidiary of Williams plc based in Cincinnati, Ohio from 1994 to 1998. From 1989 to 1994, served with Procter & Gamble as Vice President and General Manager of several consumer product groups. Director of General Cable and Superior Metals.  Age 56	2006	2,123(2)	*
Robert G. Potter	Private Investor. Chairman and Chief Executive Officer of Solutia Inc., the former chemical businesses of Monsanto Company, from 1997 to 1999. Chief Executive of the chemical businesses of Monsanto Company from 1986 to 1997. Director of Arch Coal Inc. Director of several private companies.  Age 67	1995	21,046(3) (4)	*
F. Quinn Stepan	Chairman of the Company since November 1984. Chief Executive Officer of the Company from November 1984 to December 2005.  Age 69	1967	2,045,998(5) (6) (7) (8) (9)	20.6%
Edward J. Wehmer		2003		*

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President and Chief Executive Officer of Wintrust Financial Corporation, a financial services company, since May 1998. Prior to May 1998, President and Chief Operating Officer of Wintrust Financial Corporation since its formation in 1996. Director of Wintrust Financial Corporation since 1996. Involved in several charitable and fraternal organizations.

6,438(10)  
(11)

Age 52

\* Less than one percent of outstanding shares.

- (1) Number of shares for each Director includes (a) shares of Common Stock owned by the spouse of the Director and shares held by the Director or his spouse as trustee or custodian for the benefit of children and family members where the trustee has voting or investment power, (b) shares of Common Stock which may be acquired through conversion of Preferred Stock, and (c) shares pledged as security by such Director.
- (2) Includes 473 shares credited to such Director's account pursuant to the Directors Deferred Compensation Plan Amended and Restated as of January 1, 2005.
- (3) Includes 12,125 shares credited to such Director's account pursuant to the Directors Deferred Compensation Plan Amended and Restated as of January 1, 2005.
- (4) Includes 6,345 shares that such Director has the right to acquire within 60 days through the exercise of stock options granted pursuant to the Company's stock option plans.
- (5) See Note (3) to tables under Security Ownership of Certain Beneficial Owners.
- (6) See Note (5) to tables under Security Ownership of Certain Beneficial Owners.
- (7) See Note (6) to tables under Security Ownership of Certain Beneficial Owners.
- (8) See Note (7) to tables under Security Ownership of Certain Beneficial Owners.
- (9) See Note (8) to tables under Security Ownership of Certain Beneficial Owners.
- (10) Includes 1,059 shares credited to such Director's account pursuant to the Directors Deferred Compensation Plan Amended and Restated as of January 1, 2005.
- (11) Includes 1,879 shares that such Director has the right to acquire within 60 days through the exercise of stock options granted pursuant to the Company's stock option plans.

#### Directors Whose Terms Continue

The following table sets forth certain information about those Directors who are not up for reelection as their respective term of office does not expire this year:

Name of Director	Principal Occupation and Business Experience During the Past Five Years, Other Directorships and Age	Year of First Election as Director	Term Expires	Number and Percent of Shares of Common Stock Beneficially Owned(1)	
Robert D. Cadieux	Private Investor. From 1993 to January 1995, President and Chief Executive Officer of Air Liquide America Corporation, a manufacturer of industrial gases. From 1991 to 1993, Executive Vice President of Amoco Corporation. From 1983 to 1991, President of Amoco Chemical Company. Trustee of Illinois Institute of Technology.  Age 69	1992	2009	13,084(2) (3)	*
Thomas F. Grojean	Chairman, Chief Executive Officer and sole owner of Grojean Transportation, a nationwide truckload freight carrier, since 1990.  Age 68	1977	2008	35,296(2) (4)	*
F. Quinn Stepan, Jr.	President and Chief Executive Officer of the Company since January 2006. President and Chief Operating Officer of the Company from February 1999 to December 2005. Director of Follett Corporation since February 2005.  Age 46	1999	2008	786,260(5) (6)	7.9%

\*Less than one percent of outstanding shares.





- (1) See Note (1) to table under Nominees for Director.
- (2) Includes 6,345 shares that such Director has the right to acquire within 60 days through the exercise of stock options granted pursuant to the Company's stock option plans.
- (3) Includes 1,059 shares credited to such Director's account pursuant to the Directors Deferred Compensation Plan Amended and Restated as of January 1, 2005.
- (4) Includes 19,061 shares credited to such Director's account pursuant to the Directors Deferred Compensation Plan Amended and Restated as of January 1, 2005.
- (5) Includes 415,566 shares in the Company's qualified plans and deemed beneficially owned by the Plan Committee, of which James Hurlbutt, Gregory Servatius and F. Quinn Stepan, Jr. are members and employees of the Company. The Plan Committee selects the investment manager of the Stepan Company Trust for Qualified Plans and Profit Sharing Plan Trust under the terms of a Trust Agreement effective August 1, 2003, with Russell Trust Company ( Russell ). Russell is also the trustee for the Company's Employee Stock Ownership Plan ( ESOP ) and the Employee Stock Ownership Plan II ( ESOP II ). Russell expressly denies any beneficial ownership in the securities of these plans.
- (6) Includes 200,814 shares that F. Quinn Stepan, Jr. has the right to acquire within 60 days through the exercise of stock options granted pursuant to the Company's stock option plans, 1,246 shares allocated to F. Quinn Stepan, Jr. under ESOP, 2,335 shares of Common Stock and 553 shares of Preferred Stock allocated to F. Quinn Stepan, Jr. under ESOP II, and 27,248 shares credited to F. Quinn Stepan, Jr.'s stock account under the Management Incentive Plan Amended and Restated as of January 1, 2005 (the Management Incentive Plan ). Amounts credited to an employee's stock account at the time of separation of service from the Company shall be paid as the employee has elected under the provisions of the Management Incentive Plan. Also includes 5,000 shares pledged as security for a bank loan agreement and 64,628 shares held in a margin account.

#### **Family Relationships**

F. Quinn Stepan, Jr. is the son of F. Quinn Stepan.

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**SECURITY OWNERSHIP**
**Security Ownership of Certain Beneficial Owners**

As of February 23, 2007, the only persons known to the Company to beneficially own more than five percent of the Company's Common Stock were the following:

Name and Address(1)	Number of Shares of Common Stock Beneficially Owned(2)(8)		Total Shares	Percentage of Outstanding Shares of Common Stock
	Voting and/or Investment Power			
	Sole	Shared		
F. Quinn Stepan(4)	1,539,998(5)(6)(7)	506,000(3)	2,045,998	20.6%
Dimensional Fund Advisors LP	657,925(9)		657,925	6.6%
Barclays Global Investors, NA	537,499(10)		537,499	5.4%
Paul H. Stepan(4)	8,317	506,000(3)	514,317	5.1%

As of February 23, 2007, the only persons known to the Company to beneficially own more than five percent of the Company's Preferred Stock were the following:

Name and Address(1)	Number of Shares of Preferred Stock Beneficially Owned(2)		Total Shares	Percentage of Outstanding Shares of Preferred Stock
	Voting and/or Investment Power			
	Sole	Shared		
F. Quinn Stepan(4)	22,162	166,480(3)	188,642	32.9%
Paul H. Stepan(4)	4,193	166,480(3)	170,673	29.7%
Mary Louise Wehman(4)	89,684		89,684	15.6%
John Stepan(4)	76,872		76,872	13.4%
Charlotte Stepan Shea(4)	35,244		35,244	6.1%

- (1) Except as otherwise set forth herein, the address of all persons named is Stepan Company, Edens Expressway and Winnetka Road, Northfield, Illinois 60093.
- (2) Represents number of shares beneficially owned as of February 23, 2007. Number of shares owned includes shares held by the spouses of F. Quinn Stepan and Paul H. Stepan and shares held by the persons listed in the table, as trustee or custodian for the benefit of children and family members where the trustee or custodian has voting or investment power.
- (3) F. Quinn Stepan and Paul H. Stepan are managing partners of a family-owned limited partnership which is the sole general partner in another family-owned limited partnership which owns 272,667 shares of Common Stock and 166,480 shares of Preferred Stock. These shares are pledged by the partnership as security for a bank loan agreement. The shares owned by the partnership are included in the tables

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- for both F. Quinn Stepan and Paul H. Stepan.
- (4) F. Quinn Stepan, Paul H. Stepan, John Stepan, Mary Louise Wehman and Charlotte Stepan Shea are the children of the late Mary Louise Stepan and the late Alfred C. Stepan, Jr.
  - (5) Includes 5,316 shares of Common Stock allocated to F. Quinn Stepan under ESOP and 39,424 shares of Common Stock and 9,350 shares of Preferred Stock allocated to F. Quinn Stepan under ESOP II.
  - (6) Includes 253,432 shares which F. Quinn Stepan has the right to acquire within 60 days through the exercise of stock options granted pursuant to the Company's stock option plans.
  - (7) Includes 180,600 shares of Common Stock credited to F. Quinn Stepan's stock account under the Management Incentive Plan.
  - (8) Includes the number of shares of Common Stock which the specified person has the right to acquire by conversion of Preferred Stock beneficially owned by such person.
  - (9) Dimensional Fund Advisors LP (formerly, Dimensional Fund Advisors Inc.) ( Dimensional ), 1299 Ocean Avenue,<sup>41</sup> Floor, Santa Monica, California 90401, an investment adviser registered under Section 203 of

the Investment Advisors Act of 1940, furnishes investment advice to four investment companies registered under the Investment Company Act of 1940, and serves as investment manager to certain other commingled group trusts and separate accounts. These investment companies, trusts and accounts are the Funds. In its role as investment adviser or manager, Dimensional possesses voting and/or investment power over 657,925 shares of Company stock as of December 31, 2006. These shares are owned by the Funds. Dimensional disclaims beneficial ownership of all such shares.

- (10) As reported in a Schedule 13G filed with the Securities and Exchange Commission on January 23, 2007, by Barclays Global Investors, NA, a bank, 45 Fremont Street, San Francisco, California 94105, ( BGI ), Barclays Global Fund Advisors, an investment adviser ( BGFA ), Barclays Global Investors, Ltd., a bank ( BGIL ), and Barclays Global Investors Japan Trust and Banking Company Limited, a bank ( BGIJ ). In the Schedule 13G, the Barclays reporting entities do not affirm the existence of a group and state that their shares are held in trust accounts for the economic benefit of the beneficiaries of those accounts. The Barclays reporting entities disclosed that, taken as a whole, they have sole voting power as to 527,044 shares and sole dispositive power as to 537,499 shares. The respective Barclays reporting entities disclosed voting and dispositive power as follows: BGI, sole voting power as to 429,977 shares and sole dispositive power as to 440,432 shares; BGFA, sole voting power as to 97,067 shares and sole dispositive power as to 97,067 shares; and each of BGIL and BGIJ disclosed sole voting power as to 0 shares and sole dispositive power as to 0 shares.

### Security Ownership of Management

The following table sets forth, as of the close of business on February 23, 2007, the security ownership of each Executive Officer listed in the Summary Compensation Table herein, each Director and nominee for Director, and all Directors and Executive Officers as a group on such date:

Name	Number and Percent of Shares of Common Stock Beneficially Owned(1)	
James E. Hurlbutt	467,037(2)	4.7%
John V. Venegoni	93,948(3)	*
Robert J. Wood	64,728(4)	*
F. Quinn Stepan	2,045,998(5)	20.6%
F. Quinn Stepan, Jr.	786,260(6)	7.9%
Robert D. Cadieux	13,084(7)	*
Thomas F. Grojean	35,296(8)	*
Gregory E. Lawton	2,123(9)	*
Robert G. Potter	21,046(10)	*
Edward J. Wehmer	6,438(11)	*
All Directors and Executive Officers(12)	3,261,764	32.9%

\*Less than one percent of outstanding shares.

- (1) Number of shares for each Director, nominee for Director and Executive Officer (and Directors and Executive Officers as a group) includes (a) Common Stock owned by the spouse of the Director, nominee for Director or Executive Officer and shares held by the Director, nominee for Director or Executive Officer or his spouse as trustee or custodian for the benefit of children and family members where the trustee has voting or investment power, (b) shares of Common Stock which may be acquired within 60 days through the exercise of stock options granted pursuant to the Company's stock option plans or conversion of Preferred Stock, and (c) shares pledged as security by such Director, nominee for Director or Executive Officer.
- (2) Includes 1,351 shares allocated to James E. Hurlbutt under ESOP, 2,478 shares of Common Stock and 587 share of Preferred Stock allocated to James E. Hurlbutt under ESOP II, 33,749 shares that James E. Hurlbutt has the right to acquire under the Company's stock option plans, and 8,010 shares credited to James E. Hurlbutt's stock account under the Management Incentive Plan. Also includes 3,700 shares held in a margin

- account. Number of shares also includes 415,566 shares in the Company's qualified plans and deemed beneficially owned by the Plan Committee, of which James Hurlbutt, Gregory Servatius and F. Quinn Stepan, Jr. are members and employees of the Company. The Plan Committee selects the investment manager of the Stepan Company Trust for Qualified Plans and Profit Sharing Plan Trust under the terms of a Trust Agreement effective August 1, 2003, with Russell. Russell is also the Trustee for the Company's ESOP and ESOP II. Russell expressly denies any beneficial ownership in the securities of these plans.
- (3) Includes 1,191 shares allocated to John V. Venegoni under ESOP, 2,203 shares of Common Stock and 522 shares of Preferred Stock allocated to John V. Venegoni under ESOP II, 73,481 shares that John V. Venegoni has the right to acquire under the Company's stock option plans, and 11,889 shares credited to John V. Venegoni's stock account under the Management Incentive Plan.
  - (4) Includes 1,223 shares allocated to Robert J. Wood under ESOP, 2,602 shares of Common Stock and 617 shares of Preferred Stock allocated to Robert J. Wood under ESOP II, 45,608 shares that Robert J. Wood has the right to acquire under the Company's stock option plans, and 12,991 shares credited to Robert J. Wood's stock account under the Management Incentive Plan.
  - (5) See table under Nominees for Director.
  - (6) See table under Directors Whose Terms Continue.
  - (7) See table under Directors Whose Terms Continue.
  - (8) See table under Directors Whose Terms Continue.
  - (9) See table under Nominees for Director.
  - (10) See table under Nominees for Director.
  - (11) See table under Nominees for Director.
  - (12) As of February 23, 2007, all Directors and Executive Officers as a group beneficially owned 191,528 shares of Preferred Stock, including 12,236 shares of Preferred Stock allocated to Company-employed Directors and Executive Officers under ESOP II, and which collectively represented 33.4% of the outstanding Preferred Stock and were convertible into 218,677 shares (2.2%) of Common Stock. As of February 23, 2007, Company-employed Directors and Executive Officers as a group had the right to acquire 706,407 shares of Common Stock under stock options exercisable within 60 days, 11,977 shares of Common Stock were allocated to Company-employed Directors and Executive Officers under ESOP, 51,603 shares of Common Stock were allocated to Company-employed Directors and Executive Officers under ESOP II, and 249,774 shares of Common Stock were credited to stock accounts of Company-employed Directors and Executive Officers under the Management Incentive Plan.

#### Equity Compensation Plan Information

The following table provides information as of December 31, 2006, about the Company's securities which may be issued under the Company's existing equity compensation plans, all of which have been approved by the stockholders.

<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights</u>	<u>Weighted-average exercise price of outstanding options, warrants and rights</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</u>
	(a)	(b)	(c)
Equity compensation plans approved by security holders	1,217,816	\$ 24.57	998,100(1)
Equity compensation plans not approved by security holders	None	None	None
<b>Total</b>	<b>1,217,816</b>	<b>\$ 24.57</b>	<b>998,100</b>

- (1) Under the Company's existing equity compensation plans, shares may be issued in the form of performance stock awards as awarded by the Compensation and Development Committee of the Board of Directors.

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## Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 and the rules thereunder require the Company's Executive Officers and Directors, and persons who own more than 10 percent of the Company's Common Stock or Preferred Stock, to file reports of beneficial ownership and changes in beneficial ownership of the Common Stock or Preferred Stock with the Securities and Exchange Commission, the New York Stock Exchange, the Chicago Stock Exchange and the Company. Based solely upon a review of the copies of such forms received by it during or with respect to its most recent fiscal year, or written representations from certain reporting persons, the Company believes that all persons subject to Section 16(a) reporting filed the required reports on time.

## Policies and Procedures for Approving Related Person Transactions

The Company has adopted a policy entitled "Stepan Company Related Party Transactions Policy and Procedures" which was approved by the Audit Committee of the Board of Directors on February 22, 2007 ("Related Party Transactions Policy"). This policy applies to transactions involving the Company and a Related Party which is defined as a person or entity who is a Company executive officer, director, or nominee for election as a director, or a beneficial owner of 5% or more of the Company's stock, and the immediate family members of these persons. The Related Party Transactions Policy states that the Company will enter into or ratify Related Party Transactions only when the Board of Directors, acting through the Audit Committee or as otherwise set forth in the Related Party Transactions Policy, approves the Related Party Transaction after determining that it is in, or is not inconsistent with, the best interests of the Company and its stockholders. The Audit Committee will review the material facts of all Related Party Transactions under the Related Party Transactions Policy in order to make such determination and to decide whether to approve or disapprove such Related Party Transaction. No director shall participate in any discussion or approval of a Related Party Transaction for which he or she is a Related Party, except that the director shall provide any material information concerning the Related Party Transaction requested by the Audit Committee.

As set forth in the Related Party Transactions Policy, the Audit Committee has reviewed and approved certain Related Party Transactions and determined that the following Related Party Transactions shall be deemed to be pre-approved or ratified under the terms of the Related Party Transactions Policy without further review by the Audit Committee: employment of executive officers; director compensation/reimbursement; transactions where all employees or stockholders receive proportional benefits; transactions with another company at which a Related Party's only relationship is as an employee (other than as an executive officer), director or beneficial owner of less than 10% of that company's shares, if the aggregate amount involved does not exceed the greater of \$1 million or 2% of that company's total annual revenues; and certain company charitable contributions if the Related Party's only relationship is as an employee (other than as an executive officer) or a director or in a similar capacity, if the aggregate amount involved does not exceed the greater of \$1 million or 2% of such organization's total annual receipts. In addition, the Board of Directors has delegated to the Audit Committee Chairman the authority to approve or ratify any Related Party Transaction with a Related Party in which the aggregate amount involved is expected to be less than \$120,000. All other Related Party Transactions must be approved by the Audit Committee pursuant to the procedures discussed below.

At each calendar year's first regularly scheduled Audit Committee meeting, the Company's management will submit any Related Party Transaction it would like the Company to enter into for that calendar year, including the proposed aggregate value of such transaction, if applicable. After the first calendar year meeting, any additional Related Party Transactions must be submitted to the Audit Committee for approval. Once the Audit Committee determines that the proposed transaction involved exceeds \$120,000 and is a Related Party Transaction that requires review and approval by the Audit Committee, the proposed Related Party Transaction and relevant factors will be reviewed by the Audit Committee. The factors considered by the Audit Committee for its evaluation of a Related Party Transaction include the Related Party's relationship to the Company and the interest in the transaction; the material facts of the proposed Related Party Transaction, including the proposed

aggregate value of such transaction; the benefits to the Company of the proposed Related Party Transaction; if applicable, the availability of other sources of comparable products or services; and an assessment of whether the proposed Related Party Transaction is on terms that are comparable to the terms available to an unrelated third party or to employees generally. For ongoing transactions, the Audit Committee will take into consideration the Company's contractual obligations and, based on all relevant facts and circumstances, determine if the Related Party Transaction remains in the best interests of the Company and its stockholders. After review, the Audit Committee will approve or disapprove such transactions and at each subsequently scheduled meeting, the Company will update the Audit Committee as to any material change to those transactions.

In the event the Company's Chief Executive Officer, Principal Financial Officer or General Counsel becomes aware of a Related Party Transaction that has not been previously approved or ratified under the Related Party Transactions Policy, if the transaction is pending, it will be submitted to the Audit Committee promptly for its consideration of all available relevant facts and circumstances, including the benefits to the Company; the impact on a director's independence in the event the Related Party is a director, an immediate family member of a director or an entity in which a director is a partner, shareholder or executive officer; the availability of other sources for comparable products or services; the terms of the transaction; and the terms available to unrelated third parties or to employees generally. Based on its conclusions, the Audit Committee will evaluate all options, including ratification, amendment or termination of the Related Party Transaction. If the transaction is ongoing or has been completed, the Audit Committee will evaluate the transaction, taking into account the same factors described above, to determine if rescission of the transaction is appropriate and will request that the General Counsel evaluate the Company's controls and procedures to ascertain the reason the transaction was not submitted to the Audit Committee for prior approval and whether any changes to these procedures are recommended.

#### **Transactions with Related Persons, Promoters and Certain Control Persons**

Mr. Paul H. Stepan (brother of F. Quinn Stepan and uncle of F. Quinn Stepan, Jr.) served as a Director of the Company until his resignation effective February 14, 2006. Mr. Paul H. Stepan was hired as an attorney with the law firm of McGuireWoods LLP (McGuireWoods) on December 19, 2005. The Company retained McGuireWoods for legal services beginning in 2005. During 2006, the Company retained McGuireWoods to perform legal services for the Company in the amount of \$433,463. The amount of legal fees paid by the Company to McGuireWoods in 2006 does not exceed five percent of McGuireWoods' gross revenues for McGuireWoods' last full fiscal year. The Company has continued to retain McGuireWoods in 2007. It is anticipated that the amount of legal fees to be paid by the Company to McGuireWoods in 2007 will not exceed five percent of McGuireWoods' gross revenues for McGuireWoods' next full fiscal year. Pursuant to the Company's Related Party Transactions Policy, the Audit Committee has reviewed this previously approved Related Party Transaction and has determined that it is in the best interest of the Company and its stockholders to continue to permit the Company to retain McGuireWoods for legal services. Accordingly, the Audit Committee has agreed to continue to waive the conflict of interest provisions of the Company's Code of Conduct to permit the retention of McGuireWoods and has approved this transaction under the Related Party Transactions Policy.

Mr. John Stepan (brother of F. Quinn Stepan and Paul H. Stepan and uncle of F. Quinn Stepan, Jr.) serves as a consultant for Hub International of Illinois Limited and an affiliate (HUB). HUB serves as an insurance broker for the Company to place various types of insurance coverage, including employee benefit policies, non-employee benefit policies and surety bonds. As the broker, HUB receives commissions for premiums paid by the Company for this insurance coverage. In 2006, the Company paid \$83,709 in premiums for this insurance coverage, and HUB received \$18,692 in commissions for these premiums. In 2006, HUB paid John Stepan \$4,673 in fees for insurance coverage placed by HUB for the Company. Pursuant to the Company's Related Party Transactions Policy, the Audit Committee has reviewed this previously approved Related Party Transaction and has determined that it is in the best interest of the Company and its stockholders to continue to permit the Company to retain HUB as an insurance broker. Accordingly, the Audit Committee has agreed to continue to waive the conflict of interest provisions of the Company's Code of Conduct to allow HUB to serve as an insurance broker for the Company and has approved this transaction under the Related Party Transactions Policy.

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## CORPORATE GOVERNANCE PRINCIPLES AND BOARD MATTERS

### Corporate Governance Guidelines and Code of Conduct

The Company is committed to having sound corporate governance principles and has adopted Corporate Governance Guidelines and a Code of Conduct to maintain those principles. The Company's Code of Conduct applies to all of the Company's officers, directors and employees, including the Company's Principal Executive Officer and Principal Financial Officer. The Company's Corporate Governance Guidelines and Code of Conduct are available at <http://www.stepan.com>, under Investors Corporate Governance. Stockholders may also request a free printed copy of the Company's Corporate Governance Guidelines and Code of Conduct by contacting the Company's Secretary at Stepan Company, Secretary's Office, Edens Expressway and Winnetka Road, Northfield, Illinois 60093.

### Board of Directors and Committee Meetings

During 2006, there were five regular meetings of the Board of Directors. During 2006, all of the Directors attended greater than 75 percent of the total number of meetings of the Board of Directors and meetings of committees of the Board of Directors of which such Director was a member. The Company does not have a formal policy regarding Director attendance at the Company's Annual Meeting of Stockholders. All Directors attended the 2006 Annual Meeting of Stockholders and plan to attend the 2007 Annual Meeting of Stockholders. The Company's Board of Directors has a standing Audit Committee, Compensation and Development Committee, and Nominating and Corporate Governance Committee.

On February 13, 2006, Mr. Paul H. Stepan, a Company Director, resigned from the Board of Directors effective February 14, 2006. Mr. Gregory E. Lawton is a Director who was elected by the Board of Directors on April 25, 2006, to be a Company Director until the next annual meeting of stockholders which is April 24, 2007. Messrs. Robert G. Potter, F. Quinn Stepan, and Edward J. Wehmer are current Company Directors who were previously elected by the stockholders. The terms for Messrs. Potter, Stepan and Wehmer expire in 2007. The nomination of Mr. Gregory E. Lawton to stand for election for a two-year term and the nominations for Messrs. Potter, Stepan and Wehmer to stand for election for a three-year term at the 2007 Annual Meeting of Stockholders have each been reviewed and approved by the Nominating and Corporate Governance Committee.

### *Audit Committee*

The Board of Directors has an Audit Committee, which held six meetings in 2006. The functions of the Audit Committee include annual selection and engagement of the independent registered public accounting firm, meeting with the independent registered public accounting firm before the year-end audit to review the proposed fees and scope of work of the audit, meeting with the independent registered public accounting firm at the completion of the year-end audit to review the results of the audit and internal controls over financial reporting, meeting with the independent registered public accounting firm quarterly prior to the Company's filing of its report on Form 10-Q, review of the independent registered public accounting firm's memorandum setting forth findings and suggestions regarding internal controls, financial policies and procedures and management's response thereto, review of the internal audit program of the Company, review of unusual or significant financial transactions, review and approval or disapproval of Related Party Transactions pursuant to the Company's Related Party Transactions Policy, and preparation of an Audit Committee report as required by the Securities and Exchange Commission to be included in this proxy statement. The members of the Audit Committee in 2006 were Messrs. Cadieux (Chairman), Grojean, Lawton and Wehmer, all of whom are outside independent directors as defined under the rules of the New York Stock Exchange and described below under Director Independence. The Board of Directors has determined that Mr. Wehmer is qualified as the Audit Committee's financial expert within the meaning of the Securities and Exchange Commission regulations. In addition, the Board of Directors has determined that Mr. Wehmer has accounting and related financial management expertise within the meaning of the rules of the New York Stock Exchange. None of the Audit Committee members serve on the audit committee of more than two public companies.





The report of the Audit Committee is included in this proxy statement. The charter of the Audit Committee is available at <http://www.stepan.com>, under Investors Corporate Governance. Stockholders may also request a free printed copy of the charter by contacting the Company's Secretary at Stepan Company, Secretary's Office, Edens Expressway and Winnetka Road, Northfield, Illinois 60093.

### *Compensation and Development Committee*

The Board of Directors has a Compensation and Development Committee, which held two meetings in 2006. The functions of the Compensation and Development Committee include reviewing the salaries of the Executive Officers of the Company each year, adjusting them as appropriate, approving all management incentive awards, approving proposals for granting of stock awards, providing advice and counsel to the Company regarding executive development and succession planning, approving management's Compensation Discussion and Analysis, and preparing the Compensation and Development Committee Report as required by the Securities and Exchange Commission to be included in this proxy statement. The members of the Compensation and Development Committee in 2006 were Messrs. Grojean (Chairman), Lawton and Potter, all of whom are outside independent directors as defined under the rules of the New York Stock Exchange and described below under Director Independence.

Both the Compensation Discussion and Analysis and the Compensation and Development Committee Report are included in this proxy statement. The charter of the Compensation and Development Committee is available at <http://www.stepan.com>, under Investors Corporate Governance. Stockholders may also request a free printed copy of the charter by contacting the Company's Secretary at Stepan Company, Secretary's Office, Edens Expressway and Winnetka Road, Northfield, Illinois 60093.

### *Nominating and Corporate Governance Committee*

The Board of Directors has a Nominating and Corporate Governance Committee, which held three meetings in 2006. The functions of the Nominating and Corporate Governance Committee include assisting the Board of Directors by identifying individuals qualified to become board members and recommending to the Board of Directors the director nominees for the next annual meeting of stockholders, developing and recommending to the Board of Directors the guidelines for corporate governance applicable to the Company, leading the Board of Directors in its annual review of the Board of Directors' performance, and recommending to the Board of Directors the director nominees for each committee. The members of the Nominating and Corporate Governance Committee are Messrs. Cadieux, Potter (Chairman) and Wehmer, all of whom are outside independent directors as defined under the rules of the New York Stock Exchange and described below under Director Independence. The charter of the Nominating and Corporate Governance Committee is available at <http://www.stepan.com>, under Investors Corporate Governance. Stockholders may also request a free printed copy of the charter by contacting the Company's Secretary at Stepan Company, Secretary's Office, Edens Expressway and Winnetka Road, Northfield, Illinois 60093.

The policy of the Nominating and Corporate Governance Committee is to consider properly submitted stockholder nominations for candidates for membership on the Board of Directors. In evaluating such nominations, the Nominating and Corporate Governance Committee seeks to achieve a balance of knowledge, experience and capability on the Board of Directors to address the membership criteria. Any stockholder nominations proposed for consideration by the Nominating and Corporate Governance Committee should include the nominee's name and qualifications for Board of Director membership and be addressed to Nominating and Corporate Governance Committee Chairman, c/o Secretary's Office, Stepan Company, Edens Expressway and Winnetka Road, Northfield, Illinois 60093. To submit a director nomination for next year's annual meeting of stockholders, the deadlines are as set forth in the Stockholder Proposals section provided below. The Secretary delivers all correspondence to the Nominating and Corporate Governance Committee Chairman without first screening the correspondence.

The Corporate Governance Guidelines contain the Board of Directors' membership criteria that apply to nominees recommended by the Nominating and Corporate Governance Committee for a position on the Board of Directors. Under these criteria, members of the Board of Directors should possess qualities that include strength of character, an inquiring and independent mind, practical wisdom and mature judgment. In addition to these qualities, the nominees should also possess recognized achievement, an ability to contribute to some aspect of the Company's business, and the willingness to make the commitment of time and effort required of a Company director. The Nominating and Corporate Governance Committee's process for identifying and evaluating nominees for director includes recommendations by stockholders, non-management directors and executive officers, a review and background check of specific candidates, an assessment of the candidate's independence under the criteria described above and interviews of director candidates by the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee's evaluation of a nominee recommended by a stockholder would consider the factors described above, as well as any of the general criteria previously described in this section.

The Nominating and Corporate Governance Committee reports annually to the Board of Directors on an assessment of the Board of Directors performance. The Chairman of the Nominating and Corporate Governance Committee initially discusses the assessment with the Chairman, and if desired by any director, the assessments are discussed at the Executive Sessions of the non-management directors. The assessment is of the Board of Directors' contribution in its entirety and reviews areas in which the Board of Directors and/or management believe a stronger contribution could be made. The Nominating and Corporate Governance Committee is responsible for evaluating the performance of current board members at the time they are considered for re-nomination to the Board of Directors.

### **Director Independence**

For purposes of determining director independence, the Company has adopted the following standards in compliance with the New York Stock Exchange director independence standards as currently in effect. These standards are not posted on the Company's website but are provided as set forth below. No director qualifies as independent unless the Board of Directors affirmatively determines that the director has no material relationship with the Company or any of its subsidiaries (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company or any of its subsidiaries). In addition, a director is not independent if:

The director is, or has been within the last three years, an employee of the Company, or an immediate family member is, or has been within the last