

STEPAN CO
Form DEF 14A
March 22, 2012

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 under Rule 14a-12

STEPAN COMPANY
(Name of registrant as specified in its charter)

(Name of person(s) filing proxy statement, if other than the registrant)

Payment of Filing Fee (Check the appropriate box):

- ☒ No fee required.
- ☐ 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:

(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):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

.. 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:

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

(3) Filing Party:

(4) Date Filed:

STEPAN COMPANY

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To be held on April 24, 2012

at 9:00 a.m. (CDT)

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, 2012, at 9:00 a.m. (CDT), for the following purposes:

1. To elect two Directors to the Board of Directors each for a three-year term.
2. To approve an advisory resolution on the compensation of the Company's named executive officers.
3. To ratify the appointment of Deloitte & Touche LLP as the independent registered public accounting firm for the Company for 2012.
4. To transact such other business as may properly come before the meeting.

The Board of Directors has designated the close of business on February 24, 2012, as the record date for determining holders of the Company's 5 1/2% Convertible Preferred Stock and the Company's Common Stock entitled to notice of and to vote at the meeting.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to Be Held on April 24, 2012.

The Proxy Statement and Annual Report to Stockholders, including Form 10-K for fiscal year 2011, are available at <http://www.edocumentview.com/SCL>.

Directions to the Annual Meeting of Stockholders are available at <http://www.stepan.com>, under "Investors" "Annual Meeting" for those stockholders who plan to attend the meeting.

By order of the Board of Directors,

KATHLEEN O. SHERLOCK

Assistant Secretary

Northfield, Illinois

March 22, 2012

The Board of Directors extends a cordial invitation to all stockholders to attend 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.

As a reminder, brokers may not vote your shares for non-routine matters such as the election of directors or the advisory vote on the compensation of the Company's named executive officers (" Say-on-Pay " vote) in the absence of your specific instructions as to how to vote. Therefore, we urge you to provide your broker with voting instructions by returning your proxy card so your vote for all proposals can be counted.

March 22, 2012

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. (CST) on April 24, 2012

INFORMATION CONCERNING SOLICITATION AND VOTING

The enclosed proxy is solicited by the Board of Directors 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, mail or other means. The Company will make arrangements with the brokers, custodians, nominees and other fiduciaries who request the forwarding of solicitation material to the beneficial owners of shares of the Company's stock held of record by such brokers, custodians, nominees and other fiduciaries, and the Company will reimburse them for their reasonable out-of-pocket expenses.

At the close of business on February 24, 2012, the record date for the meeting, there were 518,293 shares of the Company's $\frac{5}{2}\%$ Convertible Preferred Stock (Preferred Stock) outstanding, each share of which is convertible into 1.14175 shares of the Company's Common Stock (Common Stock) and is entitled to 1.14175 votes on each matter to be voted on at the meeting, and, assuming all outstanding shares of Preferred Stock were converted, there would have been 10,919,068 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 first being sent or given to stockholders commencing on or about March 22, 2012.

You may either vote **FOR** or **WITHHOLD** authority to vote for each of the nominees for the Board of Directors. You may vote **FOR**, **AGAINST** or **ABSTAIN** on the other proposals.

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In connection with any other business that may properly come before the meeting, of which the Board of Directors is not currently aware, votes will be cast pursuant to the authority granted by the enclosed proxy in accordance with the best judgment of the individuals acting under the proxy.

If you submit your proxy but abstain from voting or withhold authority to vote on one or more matters, your shares will be counted as present at the meeting for the purposes of determining a quorum. Your shares also will be counted as present at the meeting for the purpose of calculating the vote on the particular matter with respect to which you abstained from voting or withheld authority to vote. Any proxy given pursuant to this solicitation may be revoked by the stockholder at any time prior to the voting of the proxy.

If you abstain from voting on a proposal, your abstention has the same effect as a vote against that proposal. If you withhold your authority to vote for any director nominee, your withholding has the same effect as a vote against that director.

If you hold your shares in street name and do not provide voting instructions to your broker, custodian, nominee or other fiduciary, your shares will be considered "broker non-votes" and will not be voted on any non-routine matters, which include the election of directors and the advisory vote on named executive officer compensation. Shares that constitute broker non-votes may be voted on the ratification of auditors and will be counted as present at the meeting for the purpose of determining a quorum, but will not be entitled to vote on non-routine proposals. Please instruct your broker or bank so your vote can be counted on all proposals.

The required quorum at the Annual Meeting of Stockholders is a majority of the outstanding shares of the Company's voting stock as of the record date. In order to ensure the presence of holders of shares representing the necessary quorum at the Annual Meeting of Stockholders, please mark, sign and return the enclosed proxy promptly in the envelope provided. No postage is required if mailed in the United States. Even if you sign and return your proxy, you are invited to attend the meeting.

ELECTION OF DIRECTORS

Stockholders and the persons named in the enclosed proxy will vote, pursuant to the authority granted by the stockholder in the enclosed proxy, on the election of Messrs. Randall S. Dearth and Gregory E. Lawton as Directors of the Company to hold office until the Annual Meeting of Stockholders to be held in the year 2015.

In the event any one or more of such nominees is 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.

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 holders of shares of Preferred Stock or Common Stock that withhold authority to vote in the election of Directors.

The Board of Directors is divided into three classes serving staggered three-year terms. Directors for each class are elected at the Annual Meeting of Stockholders in the year in which the term for their class expires.

Nominees For Director

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

Name of Nominee	Principal Occupation, Business Experience and Other Directorships During the Past Five Years, and Age	Year of First Election as Director	Number and Percent of Shares of Common Stock Beneficially Owned(1)	
Randall S. Dearth	President and Chief Executive Officer of LANXESS Corporation, a global chemicals manufacturer, since 2004. Director of Calgon Carbon Corporation. Age 48	N/A	0	*
Gregory E. Lawton	Consultant. 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 American Trim. Age 61	2006	8,360(2)	*

* Less than one percent of outstanding shares of Common Stock.

- (1) Represents number of Common Stock shares beneficially owned as of February 24, 2012. 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 for which the Director or his spouse as trustee or custodian has voting or investment power, (b) shares of Common Stock which may be acquired through conversion of shares of Preferred Stock, and (c) shares pledged as security by the Director or the Director's family members. In addition, the Company calculates the total number of shares of Common Stock outstanding by assuming all shares of Preferred Stock are converted into Common Stock, and adding such amount to the number of shares of Common Stock outstanding.
- (2) Includes (a) 3,716 shares that the Director has the right to acquire within 60 days through the exercise of stock options granted pursuant to the Company's stock option plans, and (b) 2,572 shares credited to the Director's account pursuant to the Stepan Company 2006 Incentive Compensation Plan.

PROPOSAL: The Board of Directors recommends that the stockholders vote FOR the election of Messrs. Randall S. Dearth and Gregory E. Lawton to the Board of Directors each for a three-year term.

Directors Whose Terms Continue

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

Name of Director	Principal Occupation, Business Experience and Other Directorships During the Past Five Years, and Age	Year of First Election as Director	Term Expires	Number and Percent of Shares of Common Stock Beneficially Owned(1)	
Michael R. Boyce	Chairman and Chief Executive Officer of PQ Corporation, an industrial chemicals company, since 2005. Chairman and Chief Executive Officer of Peak Investments, an operating and acquisition company, since 1998. From 1990 to 1998, President and Chief Operating Officer of Harris Chemical Group, Inc. Director of PQ Corporation and AAR Corp. Age 64	2010	2013	1,195(2)	*
Joaquin Delgado	Executive Vice President, Electro and Communications Business of 3M Company, a global diversified technology company, since 2009. Vice President and General Manager, Electronic Markets Materials Division of 3M Company, from 2007 to 2009. Vice President, Research and Development and New Business Ventures, Consumer and Office Business of 3M Company, from 2005 to 2007. President of 3M Korea Ltd. from 2003 to 2005. Age 52	2011	2014	422(3)	*
F. Quinn Stepan	Chairman of the Company since November 1984. Chief Executive Officer of the Company from November 1984 to December 2005. Age 74	1967	2013	1,420,454(4)	13.0%
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 from February 2005 to July 2011. Age 51	1999	2014	817,270(5) (6)	7.5%

Name of Director	Principal Occupation, Business	Year of First Election as Director	Term Expires	Number and Percent of Shares of Common Stock Beneficially Owned(1)	
	Experience and Other Directorships During the Past Five Years, and Age				
Edward J. Wehmer	President, Chief Executive Officer and founder 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. Involved in several charitable and professional organizations.	2003	2013	13,434(7)	*

Age 57

*Less than one percent of outstanding shares of Common Stock.

- (1) See Note (1) to table under Nominees for Director.
- (2) Includes (a) 436 shares that the Director has the right to acquire within 60 days through the exercise of stock options granted pursuant to the Company's stock option plans, and (b) 337 shares credited to the Director's account pursuant to the Stepan Company 2006 Incentive Compensation Plan.
- (3) Includes 422 shares distributed to the Director pursuant to the Stepan Company 2011 Incentive Compensation Plan.
- (4) See Notes (3), (5) and (6) to tables under Security Ownership - Security Ownership of Certain Beneficial Owners.
- (5) Includes 309,917 shares held by 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 Profit Sharing Trust under the terms of a Trust Agreement with Fidelity Management Trust Company (Fidelity) effective July 1, 2011. The Plan Committee also selects the investment manager of the Stepan Company Trust for Qualified Plans under the terms of a Trust Agreement effective December 1, 2011, with Bank of America, N.A. (Bank of America). Both Fidelity and Bank of America expressly disclaim any beneficial ownership in the securities of these plans.
- (6) Includes (a) 187,890 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, (b) 4,162 shares of Common Stock and 557 shares of Preferred Stock allocated to F. Quinn Stepan, Jr. under the Employee Stock Ownership Plan II (ESOP II), and (c) 44,327 shares credited to F. Quinn Stepan, Jr.'s stock account under the Management Incentive Plan (As Amended and Restated Effective January 1, 2010), (the Management Incentive Plan). Amounts credited to an employee's stock account will be paid to the employee at the time of separation of service from the Company as the employee has elected under the provisions of the Management Incentive Plan. Also includes 31,950 shares pledged as security for two bank loan agreements and 54,212 shares held in a margin account.
- (7) Includes (a) 5,595 shares that the Director has the right to acquire within 60 days through the exercise of stock options granted pursuant to the Company's stock option plans, and (b) 3,217 shares credited to the Director's account pursuant to the Stepan Company 2006 Incentive Compensation Plan.

Family Relationships

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

SECURITY OWNERSHIP

Security Ownership of Certain Beneficial Owners

As of February 24, 2012, the following persons were the only persons known to the Company to beneficially own more than five percent of the Company's Common Stock:

Name and Address(1)	Number of Shares of Common Stock Beneficially Owned(2)(6)		Total Shares	Percentage of Outstanding Shares of Common Stock
	Voting and/or Investment Power			
	Sole	Shared		
F. Quinn Stepan(4)	1,115,685(5)	304,769(3)	1,420,454	13.0%
Royce & Associates, LLC(7)	877,234		877,234	8.0%
BlackRock, Inc.(8)	628,399		628,399	5.8%

As of February 24, 2012, the following persons were the only persons known to the Company to beneficially own more than five percent of the Company's Preferred Stock:

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)	22,233	166,480(3)	188,713	36.4%
Stepan Venture II	0	166,480(3)	166,480	32.1%
Mary Louise Wehman(4)	89,684		89,684	17.3%
John A. Stepan(4)	76,872		76,872	14.8%
Charlotte Stepan Shea(4)	35,244		35,244	6.8%

- (1) Except as otherwise set forth in the footnotes below, 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 24, 2012. The Company calculates the total number of shares of Common Stock outstanding by assuming all shares of Preferred Stock are converted into Common Stock, and adding such amount to the number of shares of Common Stock outstanding. In addition, number of shares owned includes shares held by the persons listed in the table, as trustee or custodian for the benefit of children and family members if such trustee or custodian has voting or investment power and, with respect to F. Quinn Stepan, shares held by the spouse of F. Quinn Stepan.
- (3)

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F. Quinn Stepan and Paul H. Stepan are managing partners of a family-owned limited partnership that is the sole general partner of another family-owned limited partnership, Stepan Venture II, which owns 114,691 shares of Common Stock and 166,480 shares of Preferred Stock. The partnership has pledged a total of 95,152 shares of Common Stock and 166,480 shares of Preferred Stock as security for a bank loan agreement. The shares owned by the partnership are included in the tables for both F. Quinn Stepan and Stepan Venture II.

- (4) F. Quinn Stepan, Paul H. Stepan, John A. 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 (a) 40,462 shares of Common Stock and 9,421 shares of Preferred Stock allocated to F. Quinn Stepan under ESOP II, (b) 199,233 shares of Common Stock credited to F. Quinn Stepan's stock account under the Management Incentive Plan, (c) 60,053 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, and (d) 94,740 shares of Common Stock pledged as security for a bank loan agreement.
- (6) Includes the number of shares of Common Stock that the specified person has the right to acquire by conversion of shares of Preferred Stock beneficially owned by such person.

- (7) As reported in a Schedule 13G/A filed with the Securities and Exchange Commission (SEC) on January 23, 2012, by Royce & Associates, LLC, an investment adviser, 745 Fifth Avenue, New York, New York, 10151 (Royce). In the Schedule 13G/A, Royce reported that, as of December 31, 2011, it had sole voting and dispositive power as to 877,234 shares.
- (8) As reported in a Schedule 13G/A filed with the SEC on February 13, 2012, by BlackRock, Inc., a parent holding company, 40 East 52nd Street, New York, New York, 10022 (BlackRock). In the Schedule 13G/A, BlackRock reported that, as of December 31, 2011, it had sole voting and dispositive power as to 628,399 shares.

Security Ownership of Management

The following table sets forth, as of the close of business on February 24, 2012, the security ownership of each Executive Officer listed in the Summary Compensation Table in this proxy statement, each Director and nominee for Director, and all Directors and Executive Officers as a group:

Name	Number and Percent of Shares of Common Stock Beneficially Owned(1)	
James E. Hurlbutt	336,064(2)	3.1%
Scott C. Mason	9,437(3)	*
John V. Venegoni	35,547(4)	*
F. Quinn Stepan	1,420,454(5)	13.0%
F. Quinn Stepan, Jr	817,270(6)	7.5%
Michael R. Boyce	1,195(7)	*
Randall S. Dearth	0(8)	*
Joaquin Delgado	422(9)	*
Gregory E. Lawton	8,360(10)	*
Edward J. Wehmer	13,434(11)	*
All Directors and Executive Officers(12)	2,493,438	22.8%

* Less than one percent of outstanding shares of Common Stock.

- (1) Number of shares for each Director, nominee for Director, and Executive Officer (and all Directors and Executive Officers as a group) includes (a) shares of Common Stock owned by the spouse of each Director, nominee for Director, or Executive Officer, and shares held by each Director, nominee for Director, or Executive Officer, or such person's spouse as trustee or custodian for the benefit of children and family members if such trustee or custodian has voting or investment power, (b) shares of Common Stock that may be acquired within 60 days through the exercise of stock options granted pursuant to the Company's stock option plans or conversion of shares of Preferred Stock, and (c) shares pledged as security by such Director, nominee for Director, or Executive Officer, or such person's family members. In addition, the Company calculates the total number of shares of Common Stock outstanding by assuming all shares of Preferred Stock are converted into Common Stock, and adding such amount to the number of shares of Common Stock outstanding.
- (2) Includes (a) 94 shares of Common Stock allocated to James E. Hurlbutt under ESOP II, (b) 9,029 shares that James E. Hurlbutt has the right to acquire within 60 days through the exercise of stock options granted pursuant to the Company's stock option plans, and (c) 8,836 shares credited to James E. Hurlbutt's stock account under the Management Incentive Plan. Also includes 309,917 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 Profit Sharing Trust under the terms of a Trust Agreement with Fidelity effective July 1, 2011. The Plan Committee also selects the investment manager of the Stepan Company Trust for Qualified Plans under the terms of a Trust Agreement effective December 1, 2011, with Bank of America. Both Fidelity and Bank of America expressly disclaim any beneficial ownership in the securities of these plans.

- (3) Includes (a) 187 shares of Common Stock allocated to Scott C. Mason under ESOP II, and (b) 4,684 shares that Scott C. Mason has the right to acquire within 60 days through the exercise of stock options granted pursuant to the Company's stock option plans.
- (4) Includes (a) 4,169 shares of Common Stock and 526 shares of Preferred Stock allocated to John V. Venegoni under ESOP II, (b) 5,193 shares that John V. Venegoni has the right to acquire within 60 days through the exercise of stock options granted pursuant to the Company's stock option plans, and (c) 13,116 shares credited to John V. Venegoni's stock account under the Management Incentive Plan.
- (5) See Note (4) to table under Directors Whose Terms Continue.
- (6) See Notes (5) and (6) to table under Directors Whose Terms Continue.
- (7) See Note (2) to table under Directors Whose Terms Continue.
- (8) Mr. Dearth is a Nominee for Director.
- (9) See Note (3) to table under Directors Whose Terms Continue.
- (10) See Note (2) to table under Nominees for Director.
- (11) See Note (7) to table under Directors Whose Terms Continue.
- (12) As of February 24, 2012, all Directors and Executive Officers as a group beneficially owned 191,010 shares of Preferred Stock, including 11,718 shares of Preferred Stock allocated to Company-employed Directors and Executive Officers under ESOP II, and which collectively represented 36.8% of the outstanding shares of Preferred Stock and were convertible into 218,085 shares (2.0%) of Common Stock. As of February 24, 2012, Company-employed Directors and Executive Officers as a group had the right to acquire 337,025 shares of Common Stock under stock options exercisable within 60 days, 59,679 shares of Common Stock allocated to them under ESOP II, and 287,104 shares of Common Stock credited to their stock accounts under the Management Incentive Plan.

Equity Compensation Plan Information

The following table provides information as of December 31, 2011, about the Company's securities that may be issued under the Company's existing equity compensation plans, all of which have been approved by the stockholders:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	601,648	\$37.57	1,297,890(1)
Equity compensation plans not approved by security holders			
Total	601,648	\$37.57	1,297,890

- (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.

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 Common Stock or Preferred Stock, to file reports of beneficial ownership and changes in beneficial ownership of Common Stock or Preferred Stock with the SEC, 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 such required reports have been timely filed except for one late report for one transaction for one Company Executive Officer, Mr. Robert J. Wood, due to an inadvertent error omitting the reporting of a 2007

sale of stock which was reported on a Form 4 upon discovery of the error.

Policies and Procedures for Approving Related Person Transactions

The Company adopted a written policy entitled "Stepan Company Related Party Transactions Policy and Procedures" which was initially approved by the Audit Committee of the Board of Directors in February 2007, and has been annually reviewed by the Audit Committee at each subsequent February meeting ("Related Party Transactions Policy"). This policy applies to transactions ("Related Party 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, or an immediate family member 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, as discussed below, in order to make such determination and to decide whether to approve or disapprove such Related Party Transaction. No Director may participate in any discussion or approval of a Related Party Transaction for which he or she is a Related Party, except that the Director must 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 types of Related Party Transactions and determined that the following types of Related Party Transactions will be generally deemed to be pre-approved 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) or director of that company 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 to charitable or non-profit organizations if the Related Party's only relationship is as an employee (other than as an executive officer) or a director or acting in a similar capacity at that organization, if the aggregate amount involved does not exceed the greater of \$1 million or 2% of that 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 for the Audit Committee's consideration any Related Party Transaction it would like the Company to enter into during that calendar year, including the proposed aggregate value of such transaction, as applicable. After the first calendar year meeting, any additional Related Party Transactions must be submitted to the Audit Committee for approval. If the Audit Committee determines that a proposed transaction 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. Such 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 Related Party's interest in the transaction; the material facts of the proposed Related Party Transaction, including the proposed aggregate value of the 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 terms of the proposed Related Party Transaction are comparable to the terms available to an unrelated third party or to employees generally, as applicable. For ongoing transactions, the Audit Committee will take into consideration the Company's contractual obligations under the transactions and, based on all available 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, Chief 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 pursuant to the above procedures, if the transaction is pending, it will be submitted to the Audit Committee promptly for its review based on the factors above. 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 determine why the transaction was not submitted to the Audit Committee for prior approval pursuant to the Related Party Transactions Policy and whether any changes to these procedures are recommended.

Transactions with Related Persons, Promoters and Certain Control Persons

Mr. Richard Stepan (son of F. Quinn Stepan and brother of F. Quinn Stepan, Jr.) is a current Company employee at the Company's Northfield, Illinois offices. Mr. Richard Stepan is neither a Company officer nor a Director or nominee for Director. As an employee of the Company, Mr. Richard Stepan receives a base salary, short-term incentive compensation as appropriate for his position, and other regular and customary employee benefits generally available to all Company employees. With respect to fiscal 2011, Mr. Richard Stepan was paid a base salary of \$137,440, bonus/incentive compensation of \$19,711, and participated in other regular and customary employee benefit programs generally available to all Company employees. Pursuant to the Company's Related Party Transactions Policy, the Audit Committee has reviewed this transaction and has determined that it is in the best interests of the Company and its stockholders to permit the Company to continue to employ Mr. Richard Stepan. Accordingly, the Audit Committee has approved this transaction under the Related Party Transactions Policy pursuant to the procedures described above.

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 Committees

The Board of Directors has a standing Audit Committee, Compensation and Development Committee, and Nominating and Corporate Governance Committee. All three committees are composed entirely of independent directors in accordance with the rules of the New York Stock Exchange and as described below under Director Independence.

Audit Committee

The Audit Committee held six meetings in 2011. The responsibilities of the Audit Committee include annual selection and engagement of the Company's independent registered public accounting firm, meeting with the Company's 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 Company's independent registered public accounting firm at the completion of the year-end audit to review the results of the audits of the Company's financial statements and internal control over financial reporting, meeting with the Company's independent registered public accounting firm prior to the Company's filing of each quarterly report on Form 10-Q and the annual report on Form 10-K, review of the independent registered public accounting firm's communication setting forth findings and suggestions regarding internal controls, financial policies and procedures and management's response to that communication, 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 SEC to be included in this proxy statement.

The members of the Audit Committee in 2011 were Messrs. Michael Boyce, Joaquin Delgado (elected May 3, 2011), Thomas Grojean (retired May 3, 2011), Gary Hendrickson (resigned effective August 1, 2011), Gregory Lawton and Edward Wehmer (Chairman), all of whom are independent directors in accordance with the rules of the New York Stock Exchange and the SEC and as described below under Director Independence. The Board of Directors has determined that Mr. Wehmer is qualified as an Audit Committee financial expert within the meaning of SEC 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 Compensation and Development Committee held three meetings in 2011. The responsibilities of the Compensation and Development Committee include reviewing and, if appropriate, adjusting the salaries of the executive officers of the Company each year, approving all management incentive awards, approving proposed grants of stock awards, providing advice to the Company regarding executive development and succession planning, approving the Company's Compensation Discussion and Analysis, and preparing the Compensation and Development Committee Report as required by the SEC to be included in this proxy statement. The members of the Compensation and Development Committee in 2011 were Messrs. Michael Boyce, Joaquin Delgado (elected May 3, 2011), Thomas Grojean (retired May 3, 2011), Gary Hendrickson (resigned effective August 1, 2011), Gregory Lawton (Chairman) and Edward Wehmer, all of whom are independent directors in accordance with the rules of the New York Stock Exchange and as 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 Nominating and Corporate Governance Committee held four meetings in 2011. The responsibilities 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 election to the Board of Directors, 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 Directors for each committee.

The members of the Nominating and Corporate Governance Committee in 2011 were Messrs. Michael Boyce (Chairman effective February 8, 2011), Joaquin Delgado (elected May 3, 2011), Thomas Grojean (retired May 3, 2011), Gary Hendrickson (Chairman until February 8, 2011, and resigned from Board of Directors effective August 1, 2011), Gregory Lawton and Edward Wehmer, all of whom are independent directors in accordance with the rules of the New York Stock Exchange and as 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 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 Executive Sessions of the non-management Directors. This assessment evaluates the Board of Directors' contribution to the Company 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 members of the Board of Directors at the time they are considered for re-nomination to the Board of Directors.

Board Meetings and Attendance

During 2011, there were five regular meetings and one special meeting of the Board of Directors. During 2011, all of the Directors attended greater than 75 percent of the total number of meetings of the Board of Directors and the meetings of committees of the Board of Directors of which each Director was a member. While

all Directors are encouraged to attend, the Company does not have a formal policy regarding Director attendance at the Company's Annual Meeting of Stockholders. All Directors attended the 2011 Annual Meeting of Stockholders and plan to attend the 2012 Annual Meeting of Stockholders. In addition, Mr. James R. Voss was a Director from August 1, 2011 until August 11, 2011. As required by the Company's Corporate Governance Guidelines, Mr. Voss tendered his resignation as a result of a change in his employment status. The Board of Directors accepted his resignation as previously disclosed in the Company's SEC filing on August 12, 2011. Mr. Voss did not attend any Board of Director or Board committee meetings and did not receive any compensation for such service on the Board of Directors.

Director Nomination Process

It is the policy of the Nominating and Corporate Governance Committee 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 must comply with the requirements set forth in the Company's By-laws. Among other things, a stockholder must give written notice containing the information required by the Company's By-laws to the Secretary of the Company at Stepan Company, Secretary's Office, Edens Expressway and Winnetka Road, Northfield, Illinois 60093. The deadline to submit a director nomination for next year's annual meeting of stockholders is set forth in the Stockholder Proposals section 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, Director 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 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 director independence standards described below, 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 general criteria and required information previously described in this section, and any other factors the Nominating and Corporate Governance Committee deems relevant.

Mr. Randall S. Dearth is a nominee for Director who has not been previously elected by the stockholders. At the direction of the Nominating and Corporate Governance Committee, an executive search firm was retained to help identify and facilitate the screening and interview process of candidates for Director. Mr. Dearth was identified by the search firm as a potential Director candidate. Mr. Dearth was subsequently interviewed by members of the Nominating and Corporate Governance Committee. Based on all of these factors, it was determined by the Nominating and Corporate Governance Committee that Mr. Dearth possesses the qualities, achievements, experience and capabilities necessary to serve as a Company Director. Mr. Gregory E. Lawton is a current Director who was previously elected by the stockholders. The term for Mr. Lawton expires in 2012. The nominations of Messrs. Dearth and Lawton to stand for election for a three-year term at the 2012 Annual Meeting of Stockholders have each been reviewed and approved by the Nominating and Corporate Governance Committee and the Board of Directors.

Board Diversity

The Board of Directors does not have a formal policy with respect to diversity. However, in identifying Director nominees, the Nominating and Corporate Governance Committee and the Board of Directors consider a broad definition of diversity, including but not limited to, diversity of professional experience, education and skills. For example, the Nominating and Corporate Governance Committee and the Board of Directors have considered operational experience, international experience, technical experience, financial experience, and experience related to the Company's current product lines and industries. If the Nominating and Corporate Governance Committee utilizes an outside search firm to identify Director nominees, it instructs the search firm to consider broadly-defined diversity in identifying potential nominees.

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. 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 three years, an executive officer of the Company;

The Director, or an immediate family member, has received, during any twelve-month period within the last three years, more than \$120,000 in direct compensation from the Company, other than Director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service);

(A) The Director is a current partner or employee of a firm that is the Company's internal or external independent registered public accounting firm; (B) the Director has an immediate family member who is a current partner of such a firm; (C) the Director has an immediate family member who is a current employee of such a firm and personally works on the Company's audit; or (D) the Director or an immediate family member was within the last three years a partner or employee of such a firm and personally worked on the Company's audit within that time;

The Director or an immediate family member is, or has been within the last three years, employed as an executive officer of another company where any of the Company's present executive officers at the same time serves or served on that company's compensation committee; or

The Director is a current employee, or an immediate family member is a current executive officer, of a company that has made payments to, or received payments from, the Company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million or 2% of such other company's consolidated gross revenues.

Under the New York Stock Exchange rules and the Company's Corporate Governance Guidelines, at least a majority of the Company's Directors and each member of the Audit Committee, Compensation and Development Committee, and Nominating and Corporate Governance Committee must meet the independence standards set forth above. The Board of Directors has determined that each of Michael R. Boyce, Joaquin Delgado, Gregory E. Lawton and Edward J. Wehmer has no material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company) and is independent under the standards set forth above. In addition, the Board of Directors has also determined that Randall S. Dearth, a nominee for Director, has no material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company) and would be deemed independent under the standards set forth above should he be elected by the stockholders as a Director of the Company at the 2012 Annual Meeting of Stockholders.

Mr. F. Quinn Stepan and Mr. F. Quinn Stepan, Jr. are not deemed independent under the rules of the New York Stock Exchange since Mr. F. Quinn Stepan has served as the Chairman of the Company since November 1984 and Mr. F. Quinn Stepan, Jr. has served as the President and Chief Executive Officer of the Company since January 2006.

Board Leadership Structure

The Company currently separates the Chief Executive Officer and Chairman positions. The positions have been separate since 2006. The Board of Directors believes that this structure is appropriate at the current time because it enables the Company to retain on the Board of Directors the experience and perspectives of a major shareholder and former Chief Executive Officer, as well as the skills and talents of the current Chief Executive Officer. The Board of Directors does not have a Lead Director.

Director Qualifications

All Directors and nominees for Director possess strong executive leadership experience based on their individual experience from their positions as executives of various corporations. Certain individual qualifications and skills of each Director and nominee for Director that were considered in nominating such individual to the Board of Directors are as follows:

Mr. F. Quinn Stepan: Mr. Stepan has served as Chairman of the Company since 1984. In his 50-year career with the Company, Mr. Stepan has held numerous positions, including Chief Executive Officer. Mr. Stepan's experience as the former Chief Executive Officer provides the Board of Directors with extensive knowledge of the Company's history and its operations and strategy.

Mr. F. Quinn Stepan, Jr.: Mr. Stepan, Jr. serves as the President and Chief Executive Officer of the Company, a position he has held since 2006. In his over 25-year career with the Company, Mr. Stepan, Jr. has served in a number of positions of increasing responsibility and in a variety of functions within the Company's operations. Mr. Stepan, Jr.'s day-to-day strategic leadership provides the Board of Directors with extensive knowledge of the Company's operations.

Mr. Michael R. Boyce: Mr. Boyce is the Chairman and Chief Executive Officer of PQ Corporation, an industrial chemicals company, as well as the Chairman and Chief Executive Officer of Peak Investments, an operating and acquisition company. Mr. Boyce also serves as a director for PQ Corporation and AAR Corp. Mr. Boyce provides the Board of Directors with global executive leadership in the chemical industry as well as expertise in strategic business matters.

Mr. Randall S. Dearth: Mr. Dearth is the President and Chief Executive Officer of LANXESS Corporation, a global chemicals manufacturer. Prior to LANXESS, Mr. Dearth served as the President and Chief Executive Officer of Bayer Chemicals Corporation, a chemicals manufacturer. Mr. Dearth also serves as a director for Calgon Carbon Corporation. Mr. Dearth is a current nominee for Director and will, if elected by the stockholders, provide the Board of Directors with global executive leadership in the chemical industry and a global perspective on European leadership, strategy and business conditions.

Dr. Joaquin Delgado: Dr. Delgado is the Executive Vice President, Electro and Communications Business of 3M Company, a global diversified technology company. Dr. Delgado provides the Board of Directors with expertise in innovation and current global business and operational experience.

Mr. Gregory E. Lawton: Mr. Lawton is the former President and Chief Executive Officer of JohnsonDiversey, a leading global provider of cleaning and hygiene solutions to the institutional and industrial marketplace. Mr. Lawton previously held various leadership roles at

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other companies and also serves as a director for General Cable and American Trim. Mr. Lawton provides the Board of Directors with global expertise and executive leadership from the consumer products industry, and extensive experience with employee development.

Mr. Edward J. Wehmer: Mr. Wehmer is the President and Chief Executive Officer of Wintrust Financial Corporation, a financial services company. Mr. Wehmer is also a Certified Public Accountant and serves as a director for Wintrust Financial Corporation. Mr. Wehmer provides the Board of Directors with expertise in strategic, financial, banking and accounting matters.

Risk Management

The Board of Directors takes an active role in overseeing the Company's financial and non-financial risks. The Audit Committee, which is chaired by Mr. Wehmer, an Audit Committee financial expert, takes a lead role in overseeing Company risks. The Audit Committee receives reports from the Company's Director of Internal Audit, the Chief Financial Officer, and the General Counsel, all of whom are responsible for various aspects of the Company's risk management. The Director of Internal Audit reports directly to the Audit Committee. The Audit Committee meets with the Company's external auditors, separately from management.

The Compensation and Development Committee, which is chaired by Mr. Lawton, takes the lead role in overseeing the management of risks as they relate to the Company's compensation policies and practices. For 2011, the Compensation and Development Committee reviewed these compensation policies and practices and did not identify any risks that are reasonably likely to have a material adverse effect on the Company.

Executive Sessions

Executive Sessions of non-management Directors will be held at least two times per year. At least one of the Executive Sessions each year will be limited to the Company's independent Directors. Executive Sessions are generally held by the independent Directors after every regular Board of Directors meeting and after most Board committee meetings. In 2011, three Executive Sessions were held by the independent Directors and chaired by Mr. Boyce. In addition, Executive Sessions were also held after most Board committee meetings during 2011 and were chaired by the respective chairman of the Board committee. The Executive Sessions after all regular Board of Directors meetings are scheduled and chaired by the Chairman of the Nominating and Corporate Governance Committee. Mr. Boyce has served as the Chairman of the Nominating and Corporate Governance Committee since February 2011. Any non-management Director can request that an additional Executive Session be scheduled.

Communication with the Board

A stockholder may communicate with the Board of Directors by writing c/o Secretary's Office, Stepan Company, Edens Expressway and Winnetka Road, Northfield, Illinois 60093. Mail addressed to a specific Director or Board committee will be delivered to that Director or Board committee. The Secretary delivers all correspondence without first screening the correspondence.

Compensation Committee Interlocks and Insider Participation

None

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Summary of Executive Compensation in 2011

In 2011, the Company and the Compensation and Development Committee of the Board of Directors (defined within this Compensation Discussion and Analysis section as the Committee) applied the compensation policies and principles described in this Compensation Discussion and Analysis in determining named executive officer (NEO) compensation. Specifically:

Base salary was surveyed and determined to be consistent with similar positions in similar industries.

Incentive pay was directly connected to Company and individual performance, and reflected record Company financial performance.

The stockholder Say-on-Pay advisory vote on NEO compensation evidenced strong stockholder support of the Company's NEO compensation program, which was acknowledged and considered by the Committee.

All NEOs were in compliance with stock ownership requirements.

In most cases, the types of compensation and benefits provided to NEOs by the Company are the same as those provided to the Company's other executives. The limited amount of benefits and perquisites offered to the NEOs is common to many companies and was reasonable in both nature and amount. The Company believes it needed to offer the level of 2011 executive compensation, benefits and perquisites as part of its total reward components to attract and retain talented executives in a competitive staffing environment. After considering all components of the total compensation paid to the NEOs in 2011, the Committee has determined that 2011 NEO compensation was competitive and reasonable.

Role of the Compensation and Development Committee

The Committee is responsible for overseeing the establishment and administration of the Company's policies, programs and procedures for compensating the Company's executive management, as further described below. The Committee is also responsible for providing advice to the Company regarding executive development and succession planning. The Committee acts pursuant to a charter, which is available on the Company's website at <http://www.stepan.com>, under Investors Corporate Governance.

The individuals who served as the Company's Principal Executive Officer and Principal Financial Officer during fiscal year 2011, as well as the Company's three other most highly compensated executive officers during fiscal year 2011 included in the Summary Compensation Table, are referred to in this proxy statement as the NEOs. The executive officers include the NEOs and the other executive officers of the Company.

Compensation Objectives

The overall objectives of the Company's compensation programs are as follows:

motivate employees to achieve and maintain a high level of performance, and drive results that will help the Company achieve its goals;

align the interests of our employees with the interests of our stockholders;

provide for levels of compensation competitive with the marketplace; and

attract and retain employees of outstanding ability.

Compensation Philosophy

The basic premise of the Company's executive compensation philosophy is to pay for performance. The Company's intention is to foster a performance-driven culture with competitive total compensation as a key driver for all employees. Compensation levels commensurate with Company performance align the interests of its employees with the interest of its stockholders.

The Company's guiding philosophy in executive compensation is that the compensation of executive officers should reflect the scope of their job responsibilities and level of individual and corporate performance achieved. Executive compensation should be competitive internally, as well as externally, to like or comparable positions based on job descriptions and responsibilities at similarly sized companies within general industry and/or the chemical industry, other appropriate related industry benchmarks or survey information. The Company's compensation philosophy is reviewed annually by the Committee.

The effectiveness of the executive compensation program is primarily measured by Company performance, stock price appreciation, the ability of the Company to attract and retain executive officers, and comparison against other relevant, external benchmarks as needed.

The Committee generally does not consider the impact of previously awarded compensation in determining current executive total compensation. The Committee does, however, use both aggregate general industry survey data as well as a chemical industry peer group to benchmark executive compensation annually as described below under "Use of Industry Surveys and Peer Group Data." Except for the limits regarding incentive compensation described below, the Committee does not use specific policies to allocate between cash and non-cash compensation or between short-term and long-term compensation.

Compensation Consultant

The Committee has not retained its own consultant to provide overall compensation advice. On an ongoing basis, the Committee and the Company utilize compensation survey data and software purchased from a compensation consultant, Towers Watson, when making base compensation decisions for Company executives. The Committee and the Company also receive long-term incentive survey data from Towers Watson annually as well as total compensation benchmark information.

Compensation Consultant Fees

The aggregate fees paid by the Company for all services provided by compensation consultants, including services provided by Towers Watson, did not exceed \$120,000 for the year ended December 31, 2011.

Role of Executives in Establishing Compensation

The Committee determines the compensation of the Chairman and the Chief Executive Officer. The Chief Executive Officer and the Vice President Human Resources make recommendations to the Committee regarding compensation for all other executive officers, including the

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NEOs. The Committee then reviews these recommendations and approves the final compensation for these individuals. All recommendations made to the Committee and all determinations made by the Committee are based upon the Company's policies and guidelines and other relevant factors outlined in the Use of Industry Surveys and Peer Group Data and Elements of Compensation sections below.

Say-on-Pay Advisory Vote

At the Annual Meeting of Stockholders held on May 3, 2011, the Company provided stockholders with the opportunity to cast an advisory vote on executive compensation (Say-on-Pay). An overwhelming majority of the votes cast, over 98%, voted to approve the Say-on-Pay vote.

The Committee acknowledges and values the feedback from the Company's stockholders on the Say-on-Pay vote and believes that these results demonstrate stockholder support of the Company's overall executive compensation approach, which is primarily designed as performance-based and aligns stockholders' interests. The Committee considered and will continue to consider the outcome of these advisory votes when considering future executive compensation arrangements. In addition, after considering these advisory votes at its October 25, 2011 meeting, the Board of Directors agreed to hold the Say-on-Pay advisory vote annually until the next required vote on frequency of shareholder votes on the compensation of executives. The Company expects to hold a vote on frequency every six years.

Use of Industry Surveys and Peer Group Data

The Company determines compensation by considering two sources: industry surveys and compensation information from a select group of peer companies. The Company reviews survey data for total compensation, including base salary, short-term incentives and long-term incentives, annually or otherwise periodically, as appropriate.

The Company subscribes to compensation survey data supplied by Towers Watson for the purpose of comparing total compensation. For the executive officers, including the NEOs, the Company reviews compensation using the Towers Watson Survey Report on Top Management Compensation. The Towers Watson Survey Report on Top Management Compensation is comprised of data from more than 1,600 organizations representing a variety of industries, sizes of companies and geographic areas. The Company utilizes survey data for the position or positions that most closely matches the job description of each NEO or executive officer position, and for the companies that are most closely aligned with characteristics of the Company, including comparable industry, comparable size (revenue and employees) and other measures of comparison as appropriate and available.

The Company also uses a chemical industry peer group of 14 companies (Peer Group) as an additional reference point for data regarding total compensation. The companies included in the Peer Group were selected because of their chemical industry affiliation and similarity to the Company in size and/or business. The following companies comprised the Peer Group used in reviewing and considering 2011 total compensation: Albemarle Corporation; A. Schulman, Inc.; Cabot Corporation; Chemtura Corporation; Cytec Industries Inc.; Ferro Corporation; Georgia Gulf Corporation; H.B. Fuller Company; Innospec Inc.; Kraton Performance Polymers, Inc.; NewMarket Corporation; OM Group, Inc.; PolyOne Corporation; and Sensient Technologies Corporation.

The Company made several changes to the Peer Group in 2011. These changes were based upon annual evaluations of the Peer Group in order to ensure the Company is comparing itself with companies who have a specialty chemicals focus, who are within a reasonable range of Company market capitalization size, who are members of the American Chemistry Council, companies which identify the Company in their industry peer groups and other related factors. As a result of this evaluation, six companies were added to the Peer Group and four companies were removed from the Peer Group. The six companies added to the Peer Group were A. Schulman, Inc.; Innospec Inc.; Kraton Performance Polymers, Inc.; OM Group, Inc.; PolyOne Corporation; and Sensient Technologies Corporation. The companies Arch Chemicals, Inc. and The Lubrizol Corporation were removed because they were acquired by larger companies, and Ashland Inc. and Cambrex Corporation were removed based on their significant size differences in market capitalization compared to the Company's market capitalization. The Company and Committee believe that this revised Peer Group provides the best current comparison and industry peer group for the Company due to the various factors described above.

Based on a review of the Towers Watson survey data, the Company targets total compensation for executive officers to be in the median range (plus or minus 10% of the 50th percentile) of the survey data. All NEOs' and executive officers' total compensation amounts were considered to be within appropriate and reasonable levels as compared to the survey data considering experience level, time in position, global job grades and both external and internal equity evaluations.

The Company has a long-term target total compensation mix of 40% base salary, 20% short-term incentives and 40% long-term incentives for executive officers' compensation. Short-term incentives for executive officers are based on individual and Company performance. Long-term incentives for executive officers are based only on Company performance. This mix assumes above average Company performance and can vary considerably if performance is either below average or at a superior level. For 2011, the actual total compensation mix for all nine executive officers was 52.0% base salary, 17.5% short-term incentives, and 30.5% long-term incentives. For the NEOs, the mix was 50.1% base salary, 17.6% short-term incentives and 32.3% long-term incentives.

Elements of Compensation

For the fiscal year ended December 31, 2011, the principal elements of compensation for the executive officers, including the NEOs, were as follows:

Compensation Element / Purpose	Description
<p><i>Base Salary</i></p> <p>To attract and retain employees of outstanding abilities</p>	<p>Fixed component of pay based on specific position salary ranges determined by job responsibilities, competitive benchmark data and performance</p>
<p><i>Short-Term Incentives</i></p> <p>To drive year-over-year financial performance; to motivate, attract and retain employees; and to align their interests directly with Company financial targets</p>	<p>Variable, annual, at risk component of pay that rewards achievement of pre-determined Company and individual goals</p>
<p><i>Long-Term Incentives</i></p> <p>To promote retention of executives, to recognize outstanding job performance, and to encourage a focus on the Company's long-term financial results</p>	<p>Variable, at risk, equity component of pay for eligible participants that rewards stockholder value creation over time</p>
<p><i>Retirement Benefits</i></p> <p>To promote retention and to attract outstanding employees</p>	<p>Fixed percentage (4%) of base salary under a Savings and Investment Retirement Plan for all U.S. employees</p>
<p><i>Profit Sharing Plans and Employee Stock Ownership Plans</i></p> <p>To provide employees with a tax deferred retirement savings vehicle directly connected to the Company's financial results</p>	<p>Variable, annual, at-risk component directly determined by Corporate Net Income achieved</p>
<p><i>Perquisites</i></p> <p>To attract and retain superior employees for key positions</p>	<p>Executives and key employees, including the NEOs, are eligible for a nominal amount of perquisites which are provided to be market competitive</p>
<p><i>Other Benefits</i></p>	<p>NEOs are eligible for the benefit programs that are available to all other salaried employees which provide for basic life, health and security needs</p>

Base Salary

The Company has established salary grades and ranges for all employees, including all of the NEOs. The grades range from 3 to 19, and within each grade, there are three tiers. Salary grades reflect the responsibility level of the position, i.e., positions requiring greater responsibility have a higher number salary grade. Salary tiers reflect the employee's individual performance and experience. The salary range for each grade and tier is

primarily based on survey data to the 50th percentile. This enables the Company to ensure pay equity among executives and all employees that is market competitive. A complete list of salary grades and tiers is published annually to all management employees.

The Committee, taking into consideration the performance of the Company, the Company's compensation philosophy, the survey data, and the Company's salary grades and tiers, reviews and determines the Chief Executive Officer's salary and the Chairman's salary on an annual basis. The Chief Executive Officer and the Vice President Human Resources make recommendations to the Committee regarding compensation for all other executive officers. The Committee has the discretion to approve such recommendations or revise the recommended amounts, higher or lower, based upon each specific executive officer's performance. The Chief Executive Officer's salary range is determined based on the same factors and criteria as those of other NEOs, executive officers and all salaried employees.

See the narrative to the Summary Compensation Table below for additional information regarding base salaries for the NEOs in 2011.

Short-Term Incentive Compensation

The purpose of the Company's short-term incentive compensation (annual bonus) is to promote improved year-over-year financial performance; to motivate, attract and retain executive, managerial and key employees of outstanding ability; and to align participants' interests directly with Company financial targets. The total amount of short-term compensation is a percentage of the executive's or employee's actual base salary earned each calendar year. Because more senior managers have a greater ability to impact Company results, a greater percentage of their total compensation is at-risk in the form of the annual bonus.

The Chief Executive Officer and the Chairman have the highest levels of responsibility, and therefore, are eligible for the two highest bonus percentage ranges. The Vice President and General Manager Surfactants, as leader of the largest business unit, the Vice President and Chief Financial Officer, responsible for all Company financial functions, and the Vice President Supply Chain, responsible for all Company logistics and manufacturing functions, are each eligible for the next highest level of bonus percentage. Under the terms of the Stepan Company Management Incentive Plan (As Amended and Restated Effective January 1, 2010), (the Management Incentive Plan), the maximum percentage of an executive's annual bonus is 150% of his or her annual base salary, up to a maximum dollar amount of \$1,500,000. The following chart reflects the target bonus range, as a percentage of annual base salary, for each NEO for calendar year 2011:

NEO	Target Bonus Range
Chief Executive Officer (F. Quinn Stepan, Jr.)	0-100%
Chairman (F. Quinn Stepan)	0-75%
Vice President and Chief Financial Officer (James E. Hurlbutt)	0-60%
Vice President and General Manager Surfactants (John V. Venegoni)	0-60%
Vice President Supply Chain (Scott C. Mason)	0-60%

Within the target bonus ranges shown above, each NEO's annual bonus is directly determined by the Company's overall financial performance and, for NEOs other than the Chief Executive Officer and the Chairman, the achievement of a set of individual performance goals, as described below. Payouts against each goal are based on the relative level of achievement of the goal, and are measured against four categories: Marginal, Competent, Commendable and Distinguished. The Marginal level represents the minimum threshold that must be exceeded in order to obtain any payout against that goal; in contrast, the Distinguished level represents the target threshold that must be met to obtain the maximum percentage payout for that goal. The Competent and Commendable levels, intended to be challenging but reasonably obtainable, are set at prorated amounts between the Marginal and Distinguished levels. Few, if any, managers or executives achieve the Distinguished level for all of their goals in any calendar year.

The extent, if any, to which an incentive award will be payable to a Covered Employee (executive, managerial and key employees of the Company, including subsidiaries, designated by the Committee prior to the grant of an award within the meaning of Section 162(m)(3) of the Internal Revenue Code of 1986, as amended) will be based solely upon the degree of achievement of pre-established Performance Goals over the specified calendar year, provided however, that the Committee may, in its sole discretion, reduce or eliminate the amount which would otherwise be payable with respect to a calendar year. In addition, bonus payments as a whole may be reduced, prorated, or eliminated entirely based on Company performance if Corporate Net Income falls below certain pre-determined levels. Similarly, in years when Company performance is exceptional and above the Distinguished level, it is possible for NEOs to receive bonuses above target (see Stretch target description below), while in years when Company performance is below the Marginal level, no bonus will be paid based upon Company performance.

All executive officers and other key Company executives have an additional Stretch target added above the Distinguished level, which rewards exceptional Company performance. For 2011, the Stretch target was based on Corporate Net Income and was set by the Committee at \$85.0 million. Any additional reward earned is prorated between the Distinguished and Stretch levels for Corporate Net Income only. The upside potential for executive officers, including all NEOs, is 50% of any individual's earned bonus payout. Other key executives also have either a 50% or 25% upside potential on the same Company objectives. If the Stretch target is achieved, the Chief Executive Officer is eligible for a maximum bonus of 150% of base salary, the Chairman is eligible for a maximum bonus of 112.5% of base salary, and the other NEOs are each eligible for a maximum bonus of 90% of base salary. Stretch targets are set at the same time all Company target objectives are approved and are designed to be very difficult to achieve, i.e., only a 10%-15% probability of achievement. These types of Stretch targets are a common compensation practice, and the Company believes it is appropriate to use such Stretch targets to attract and retain key Company employees who have the greatest impact on the Company results each year. For 2011, the Company did not achieve the additional Stretch target and therefore no upside bonus amounts were paid.

Overall Financial Performance Targets

The Committee establishes the Company's overall financial performance targets at the beginning of each calendar year. In 2011, the Committee established targets for three overall financial performance measures for all NEOs: Corporate Net Income, Corporate Return on Invested Capital (ROIC) and Corporate Free Cash Flow.

In 2011, the following levels were set for each of these targets:

Target	Marginal	Competent	Commendable	Distinguished
Net Income	\$62.0 million	\$67.0 million	\$72.0 million	\$77.0 million
ROIC	11.00%	12.00%	13.00%	14.00%
Free Cash Flow	(\$55.0 million)	(\$40.0 million)	(\$25.0 million)	(\$10.0 million)

Each NEO's annual bonus objectives include these Corporate financial performance targets. Given their respective levels of responsibility, the Chairman and the Chief Executive Officer both had their bonus based entirely on these Corporate financial performance targets, although each bonus amount was subject to a reduction if the Corporate Safety Targets were not achieved. The Vice President and Chief Financial Officer had 67% of his bonus tied to the same Corporate financial performance targets. The other NEOs each had at least 40% of their bonus tied to these same targets.

The following table shows the Company's performance against the Corporate Net Income, ROIC and Free Cash Flow Targets in 2011:

Target	2011 Results	2011 Distinguished (Maximum) Target	2011 Payout Against Distinguished (Maximum) Target
Net Income	\$72.4 million(1)	\$77.0 million	69.3%(1)
ROIC	11.63%(1)	14.00%	21.0%(1)
Free Cash Flow	(\$27.2 million)	(\$10.0 million)	61.8%

- (1) As established at the time these targets were set, the resulting payout was adjusted by excluding deferred compensation expense and first year acquisition expenses and profits for 2011 acquisitions.

For 2011, the Corporate Net Income performance target was achieved between the Commendable and Distinguished levels, the ROIC performance target was achieved between the Marginal and Competent levels, and the Free Cash Flow performance target was achieved between the Competent and Commendable levels. The Chief Executive Officer recommended, and the Committee approved the recommendation prior to the start of the year, that the 2011 bonuses would be reduced by up to 3.0% for the Chairman and the Chief Executive Officer if the Company did not achieve its Corporate Safety Targets. Although the Company made significant improvements in reducing the Global Recordable Rate by more than 15% from 1.05 in 2010 to 0.89 in 2011, the Company did not achieve the new, more aggressive 2011 goal. Consistent with the Company's priority to continue to increase the safety of its operations, the 2011 goal was made more rigorous by reducing the target Global Recordable Rate from 1.05 in 2010 to 0.75 in 2011. The Company did achieve the Competent level for the Global Total Incident Rate, which was also made more rigorous for 2011. To reflect the Company's performance level on these more rigorous Corporate Safety Targets, an additional reduction was made to the 2011 bonuses for the Chairman and the Chief Executive Officer. As a result, the 2011 bonuses for the Chairman and the Chief Executive Officer were each reduced by 2.5%.

The 2012 bonus for both the Chairman and the Chief Executive Officer will be based on achievement of Corporate Net Income, ROIC and Free Cash Flow performance targets. The mix of these performance targets for NEOs, other executive officers and other key employees will be Corporate Net Income at 50%, ROIC at 40% and Free Cash Flow at 10% to properly reflect the relative significance of each objective to overall Company performance and to appropriately reflect the Company's growth strategy which places greater emphasis on Corporate Net Income. The Chairman and the Chief Executive Officer will continue to have a portion of their respective bonus reduced if the Corporate Safety Targets are not achieved. At least 40% of the 2012 bonus for all other executive officers will be based on achievement of these same three financial performance targets. The remainder of the 2012 bonus for all other executive officers will be determined based on financial and performance targets appropriate for their respective areas of responsibility.

While the basic premise of the Company's incentive plans, pay for performance, remains unchanged, in 2012, the Company is transitioning to new terminology for its short-term incentive payout categories for all NEOs, other executive officers and other key employees. This change is being done to more properly reflect general market practice for short-term incentive objectives as well as to more closely align the terminology of the short-term incentive plan with the Company's long-term incentive plan. The Company and Committee believe that this coordinated alignment will provide the optimal incentive platform for the Company to continue to improve overall performance, both short-term and long-term, representing the interests of stockholders. The change in terminology does not increase the overall cost of the short-term incentive program and the overall basic design is being revised as described below.

The specific change being implemented for 2012 applies only to Corporate financial performance goals: Corporate Net Income, ROIC and Free Cash Flow. For these three financial objectives, the Company will discontinue using the categories of Marginal, Competent, Commendable and Distinguished. These categories will

be replaced by new categories of Threshold, Target and Maximum. These are the same categories already used for long-term incentive compensation grants of performance shares and are discussed below in the Long-Term Incentive Compensation section. The prior category of Marginal will now be Threshold, Distinguished will now be Target and Stretch Target will now be Maximum. The proration between levels of achievement remains unchanged and achieving Threshold or below will result in no bonus payout, the same result as the Marginal category. As with the Stretch Target, the Maximum is based on the Corporate Net Income achievement, but the Committee reserves the right to exercise negative discretion should ROIC and Free Cash Flow performance fall significantly below Target. Additionally, the Committee reserves the right to include or exclude any acquisition or divestiture in exercising negative discretion. Acquisitions are not typically eligible in the year they occur unless they are part of the plan or budget for that year.

Individual Performance Targets

For executives other than the Chief Executive Officer and the Chairman, the Chief Executive Officer and the executive agree upon individual performance targets at the beginning of each calendar year. These individual performance targets may either be financial targets for a particular business segment or organization, or achievement of certain financial, safety, service or other goals specific to their function and responsibility. For 2011, the individual performance targets and the results for the other NEOs are as stated below:

James E. Hurlbutt

Vice President and Chief Financial Officer

2011 Individual Performance Targets

and Weighting Percentage

Corporate Targets Net Income, ROIC and Free Cash Flow (see Overall Financial Performance Targets section above)

66.7% of Total
Corporate Safety Targets Global Recordable Rate of less than 0.50 and Global Total Incident Rate of less than 6.35

5.0% of Total
Cash savings generated by the finance group (Distinguished level was \$2.0 million)

10.0% of Total
Execute processes to drive improvement in working capital objective

5.0% of Total
Increase analyst coverage during 2011

13.3% of Total

2011 Individual Performance Results

Net Income achieved between Commendable and Distinguished levels, ROIC achieved between Marginal and Competent levels, and Free Cash Flow achieved between Competent and Commendable levels

32.3% of Total Awarded
Although improvement was made from prior year, the Global Recordable Rate was 0.89, resulting in no award; Global Total Incident Rate achieved at the Competent level

0.83% of Total Awarded
Generated cash savings of >\$2.0 million (Distinguished level)

10.0% of Total Awarded
Improvements achieved below Marginal level

0% of Total Awarded
Achievement at Commendable level

8.9% of Total Awarded

John V. Venegoni

Vice President and General Manager Surfactants

2011 Individual Performance Targets

and Weighting Percentage

Corporate Targets Net Income, ROIC and Free Cash Flow (see Overall Financial Performance Targets section above)

40% of Total

Corporate Safety Targets Global Recordable Rate of less than 0.50 and Global Total Incident Rate of less than 6.35

5% of Total

Global Surfactant Financial Performance Targets Operating Income (Distinguished level was \$110.0 million) and ROIC (Distinguished level was 13.0%)

45% of Total

Complete Global Surfactant Expansion Projects in Two Regions, Complete One Global Surfactant Product Line Growth Project, and Attain Innovation Development Targets

10% of Total

Scott C. Mason

Vice President Supply Chain

2011 Individual Performance Targets

and Weighting Percentage

Corporate Targets Net Income, ROIC and Free Cash Flow (see Overall Financial Performance Targets section above)

40% of Total

Corporate Safety Targets Global Recordable Rate of less than 0.50 and Global Total Incident Rate of less than 6.35

10% of Total

Achieve Supply Chain Cost Targets (Distinguished level was \$330 million)

10% of Total

2011 Individual Performance Results

Net Income achieved between Commendable and Distinguished levels, ROIC achieved between Marginal and Competent levels, and Free Cash Flow achieved between Competent and Commendable levels

19.4% of Total Awarded

Although improvement was made from prior year, the Global Recordable Rate was 0.89, resulting in no award; Global Total Incident Rate achieved at the Competent level

0.83% of Total Awarded

Operating Income achieved between Competent and Commendable levels and ROIC achieved between Marginal and Competent levels

16.2% of Total Awarded

Results achieved at Competent levels

3.3% of Total Awarded

2011 Individual Performance Results

Net Income achieved between Commendable and Distinguished levels, ROIC achieved between Marginal and Competent levels, and Free Cash Flow achieved between Competent and Commendable levels

19.4% of Total Awarded

Although improvement was made from prior year, the Global Recordable Rate was 0.89, resulting in no award; Global Total Incident Rate achieved at the Competent level

1.7% of Total Awarded

Results achieved at Competent levels

3.3% of Total Awarded

Results achieved at Commendable levels

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Achieve Customer Service Metrics for On Time Service and Line Fill

10% of Total

Achieve Operational Excellence for Key Products and One Manufacturing Process

10% of Total

Execute Growth Projects in Three Regions and Completion of One Transformation Project at a Manufacturing Facility

20% of Total

6.7% of Total Awarded

Results achieved between Competent and Commendable levels

5.0% of Total Awarded

Projects completed at approximately Commendable levels

13.9% of Total Awarded

Long-Term Incentive Compensation

Pursuant to the Stepan Company 2011 Incentive Compensation Plan which was approved by stockholders at the 2011 Annual Meeting of Stockholders (the 2011 Incentive Plan), executive officers are eligible to receive grants of stock options, stock appreciation rights (SARs) and performance shares of stock on an annual basis in order to (i) promote retention of executives, (ii) recognize outstanding job performance, and (iii) encourage a focus on the Company's long-term financial results, which in turn enhance the likelihood of increases in the value of the Company's Common Stock. The Committee is responsible for approving all grants of stock options, SARs and stock awards. Eligibility for long-term incentives is based on two factors: (1) job performance, and (2) the potential of each executive or executive officer to impact the Company's financial results.

SARs, as described below, have been introduced as part of the stock grant program for 2012 grants. After reviewing stock dilution benchmarking data with Towers Watson, the Company determined that to reduce the dilutive effect of stock grants to participants, it would be appropriate and beneficial to include SARs as part of the annual stock grants. SARs, as with the other forms of stock awards that the Company grants as long-term incentive compensation, are performance-based, but the exercises of SARs may only be settled in cash. The Committee believes that reducing stock dilution by granting SARs increases individual stockholder's value in Company stock.

The Company has typically granted stock options and performance shares to NEOs, other executive officers and any other Company executives participating in the long-term incentive plan. Beginning with the grants in 2012, the Company recommended and the Board of Directors approved, the allocation of the prior calculated stock option grants into two components: 50% awarded as stock options and 50% awarded as SARs. The purpose of making this award change was to reduce the overall dilutive effect of the stock option grants. The exercise of stock option grants increases the number of outstanding shares, thereby diluting the Company's existing stockholders' share value. No change was made related to grants of performance shares. Granting SARs and reallocating awards equally between stock options and SARs does not increase the amount of value provided to participants in the 2011 Incentive Plan.

The value of long-term incentives granted to each executive is primarily based on survey data supplied by Towers Watson. Currently, long-term incentives are weighted at approximately 20% of the total grant amount as stock options, 20% of the total grant amount as SARs, and 60% of the total grant amount as performance shares. The long-term incentive components for the Chief Executive Officer are weighted at approximately 30% of the total grant amount as stock options, 30% of the total grant amount as SARs, and 40% of the total grant amount as performance shares. The Committee approved this ratio for the Chief Executive Officer due to the fact that the Chief Executive Officer has the highest level of responsibility for the Company's direction and performance, and also because such ratio is more closely aligned with stockholder value.