STEPAN CO
Form DEF 14A
March 29, 2019
as

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

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:

(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 30, 2019

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 30, 2019, 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 consider, on an advisory basis, a resolution on the compensation of the Company’s named executive officers (the “Say-on-Pay” vote);
3. To approve an amendment to the Stepan Company 2011 Incentive Compensation Plan (the “Incentive Compensation Plan vote”);
4. To ratify the appointment of Deloitte & Touche LLP as the Company’s independent registered public accounting firm for 2019; and
5. To transact such other business as may properly come before the meeting.

The Board of Directors has designated the close of business on March 8, 2019, as the record date for determining the holders of record of the Company’s Common Stock entitled to notice of and to vote at the meeting.

The Board of Directors extends a cordial invitation to all stockholders to attend the Annual Meeting. Whether or not you plan to attend the meeting, please mark, sign and mail the enclosed proxy card in the return envelope provided or vote by internet or phone as promptly as possible.

As a reminder, your broker may not vote your shares for non-routine matters such as the election of directors, the Say-on-Pay vote or the Incentive Compensation Plan vote without 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 votes for all proposals can be counted.

Directions to the Annual Meeting of Stockholders are available at http://www.stepan.com, under “Investor Relations—Annual Meeting” for those stockholders who plan to attend the Annual Meeting.

By order of the Board of Directors,

BRIAN BICHKOFF
Interim Secretary

Northfield, Illinois
March 29, 2019

Important Notice Regarding the Availability of Proxy Materials for the
Annual Meeting of Stockholders to Be Held on April 30, 2019

The Company's Proxy Statement, 2018 Annual Report to Stockholders and Annual Report on Form 10-K for the year ended December 31, 2018 are available at http://www.edocumentview.com/SCL.

March 29, 2019

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. (CDT) on April 30, 2019

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. This proxy statement and proxy are first being distributed to stockholders commencing on or about March 29, 2019.

At the close of business on March 8, 2019, the record date for the meeting, there were 22,614,125 shares of the Company's Common Stock ("Common Stock") outstanding, each share of which is entitled to one vote on each matter to be voted on at the meeting.

You may vote "FOR," "AGAINST" or "ABSTAIN" on each of the nominees for the Board of Directors and each of the other proposals. If you vote to "ABSTAIN" with respect to a nominee for the Board of Directors or a proposal, your abstention will have the same effect as a vote against that nominee or proposal.

For any other business that may properly come before the meeting, 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. The Board of Directors is not currently aware of any other business that may come before the meeting.

If you submit your proxy but abstain from voting 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. You may revoke your proxy at any time prior to the meeting.

If you hold your shares in street name and do not provide voting instructions to your broker, custodian, nominee or other fiduciary, your shares with respect to such matters will not be voted on any non-routine matters and will be considered "broker non votes." Non-routine matters include the election of directors, the Say-on-Pay vote and the Incentive Compensation Plan vote. Your broker may vote your shares without instruction on the ratification of the appointment of the Company's independent registered public accounting firm. Broker non-votes will be counted as present at the meeting for the purpose of determining a quorum. Please instruct your broker or bank so your vote can be counted on all proposals.

The required quorum at the Annual Meeting is a majority of the outstanding shares of the Company's voting stock as of the record date. In order to ensure the necessary quorum at the Annual Meeting, please mark, sign and return the enclosed proxy promptly in the envelope provided. You may also vote via the internet by visiting http://www.envisionreports.com/SCL or by phone by calling (800) 652-8683. Internet and phone voting will be available 24 hours a day, seven days a week until 1:00 a.m. (ET) on April 30, 2019. If voting via the internet or by phone, please have your proxy card available and follow the instructions to vote. Even if you vote prior to the meeting, you are invited to attend the meeting.

In the future, in accordance with the rules of the Securities and Exchange Commission (the "SEC"), the Company may furnish proxy materials, including its proxy statements and annual reports, to stockholders by providing access to these documents on the internet instead of mailing printed copies. Most stockholders will not receive printed copies of the proxy materials. Instead, the notice will provide instructions on how to access and review the proxy materials on the internet. The notice will also provide instructions on how to submit your proxy via the internet. For stockholders who prefer to receive printed copies of the proxy materials, the notice will provide instructions for requesting printed copies.

PROPOSAL NO. 1: 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. Michael R. Boyce and Edward J. Wehmer as directors of the Company, to hold office until the Annual Meeting of Stockholders to be held in 2022. 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. Messrs. Boyce and Wehmer are current directors whose terms expire in 2019. Messrs. Boyce and Wehmer were elected by the Company's stockholders at the 2016 Annual Meeting. The nominations of Messrs. Boyce and Wehmer have each been reviewed and recommended by the Nominating and Corporate Governance Committee and the Board of Directors.

Mr. F. Quinn Stepan, a current director whose term also expires in 2019, is not nominated for re-election. Mr. Stepan served the Company for 55 years and was first elected as a director in 1967. Mr. Stepan served as Chairman of the Company from November 1984 to December 2016 and as Chief Executive Officer of the Company from November 1984 to December 2005. The Board of Directors and the Company wish to thank Mr. Stepan for his enthusiastic leadership and his contributions to the Company's past and future growth. In connection with Mr. Stepan's departure, the Board of Directors reduced the size of the Board to seven directors, effective as of the 2019 Annual Meeting of Stockholders.

In the event either of Messrs. Boyce or Wehmer is unable to serve as director, votes will be cast, pursuant to the authority granted in the 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 Amended and Restated By-laws, in an uncontested election directors are elected by a majority of the votes cast by stockholders. An uncontested election of directors means an election for which the number of nominees does not exceed the number of directors to be elected at the specific election. Because two directors are to be elected, and Messrs. Boyce and Wehmer are the sole nominees, this election is uncontested, and therefore the nominees must receive a majority of votes cast by stockholders to be elected.

Nominees for Director

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

Name and Age of Nominee	Principal Occupation, Business Experience and Other Directorships During the Past Five Years, Expertise and Qualifications	Year of First Selection as Director
Michael R. Boyce (71)	Chairman of PQ Corporation, a global specialty chemical and catalyst company, from 2005 to December 2017. Chief Executive Officer of PQ Corporation from 2005 to May 2015. Chairman and Chief Executive Officer of Peak Investments, an operating and acquisition company, since 1998. Director of AAR Corporation (AIR).	2010
	Mr. Boyce provides the Board of Directors with global executive leadership in the chemical industry as well as expertise in strategic business matters.	

Edward J. Wehmer (65)	President and Chief Executive Officer of Wintrust Financial Corporation, a financial services company, since May 1998. Director of Wintrust Financial Corporation (WTFC). Mr. Wehmer is also a Certified Public Accountant. Mr. Wehmer provides the Board of Directors with expertise in strategic, financial, banking and accounting matters. Mr. Wehmer also has extensive experience with acquisitions.	2003

PROPOSAL: The Board of Directors recommends that the stockholders vote FOR the election of Messrs. Michael R. Boyce and Edward J. Wehmer to the Board of Directors, each for a three-year term.

Directors Who Are Not Nominated for Election

The following table sets forth certain information about those directors who are not up for election:

Name and Age of Director	Principal Occupation, Business Experience and Other Directorships During the Past Five Years, Expertise and Qualifications	Year of First Selection as Director	Term Expires
Randall S. Dearth (55)	President and Chief Operating Officer of GCP Applied Technologies Inc., a leading global provider of construction products technologies, since September 2018. Chairman of Calgon Carbon Corporation, a global manufacturer of activated carbon and innovative treatment systems, from May 2014 to March 2018. President and Chief Executive Officer of Calgon Carbon Corporation from 2012 to August 2018.	2012	2021
	Mr. Dearth also previously served as the President and Chief Executive Officer of LANXESS Corporation, a global chemicals manufacturer. Mr. Dearth provides the Board of Directors with global executive leadership in the chemical industry and a global perspective on strategy and business conditions.		
Joaquin Delgado (59)	Executive Vice President, Consumer Business Group of 3M Company, a global diversified technology company, since 2016. Executive Vice President, Health Care Business Group of 3M Company, from 2012 to 2016.	2011	2020
	Dr. Delgado has also held other executive leadership positions at 3M Company and holds a doctorate in polymer science and engineering. Dr. Delgado provides the Board of Directors with chemistry and innovation expertise and current global business, operational, manufacturing, marketing and corporate development experience.		
Gregory E. Lawton (68)	Consultant. President and Chief Executive Officer of JohnsonDiversey, Inc., a leading global provider of cleaning and hygiene solutions to the institutional and industrial marketplace, from October 2000 to February 2006.	2006	2021
	Mr. Lawton previously held various leadership roles at other companies. Director of American Trim, LLC. Mr. Lawton provides the Board of Directors with global expertise and executive leadership from the consumer products industry, and extensive experience with employee development.		

Jan Stern Reed (59)	Senior Vice President, General Counsel and Corporate Secretary of Walgreens Boots Alliance, Inc., a global pharmacy-led, health and wellbeing enterprise, from February 2015 to February 2016. Senior Vice President, General Counsel and Secretary of Walgreen Co. from October 2014 to February 2015. Corporate Vice President and Deputy General Counsel of Walgreen Co. from February 2013 to October 2014. Director of AngioDynamics, Inc. (ANGO).	2015	2021
	Prior to joining Walgreens, Ms. Reed was the Executive Vice President of Human Resources, General Counsel and Secretary of Solo Cup Company. Ms. Reed also serves as a director of Life365, Inc., and as an advisory board member of Corporate Governance Partners, Inc. Ms. Reed provides the Board of Directors with global executive leadership experience in legal, corporate governance and strategic business matters, as well as extensive experience with risk management, compliance, acquisitions and employee development.		
F. Quinn Stepan, Jr. (58)	Chairman of the Company since January 2017. President and Chief Executive Officer of the Company since January 2006.	1999	2020
	In his over 30-year career with the Company, Mr. Stepan has served in a number of positions of increasing responsibility and in a variety of functions within the Company's operations. Mr. Stepan's day to–day strategic leadership provides the Board of Directors with extensive knowledge of the Company's operations.		

Family Relationships

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

SECURITY OWNERSHIP

Security Ownership of Certain Beneficial Owners

As of March 5, 2019, the following persons were the only persons known to the Company to beneficially own more than five percent of the Company's Common Stock, other than members of the Company's Board of Directors or management, whose ownership is set forth in the table below:

Name and Address	Number of Shares of Common Stock Beneficially Owned	Percentage of Outstanding Shares of Common Stock (1)
BlackRock, Inc. (2)	2,976,582	13.2%
The Vanguard Group, Inc. (3)	2,268,142	10.1%

(1) Based on 22,561,685 shares of Common Stock outstanding as of March 5, 2019.
(2) As reported in a Schedule 13G/A filed with the SEC on January 31, 2019 by BlackRock, Inc. ("BlackRock"), 55 East 52nd Street, New York, New York, 10055. In the Schedule 13G/A, BlackRock reported that, as of December 31, 2018, it had sole voting power as to 2,926,451 shares of Common Stock and sole dispositive power as to 2,976,582 shares of Common Stock.
(3) As reported in a Schedule 13G/A filed with the SEC on January 10, 2019 by The Vanguard Group ("Vanguard"), 100 Vanguard Boulevard, Malvern, Pennsylvania, 19355. In the Schedule 13G/A, Vanguard reported that, as of December 31, 2018, it had sole voting power as to 20,037 shares of Common Stock, shared voting power as to 3,600 shares of Common Stock, sole dispositive power as to 2,246,718 shares of Common Stock, and shared dispositive power as to 21,424 shares of Common Stock.

Security Ownership of the Board of Directors and Management

The following table sets forth, as of March 5, 2019, 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 currently serving directors and executive officers as a group. The address for each director, nominee for director, and executive officer is c/o Stepan Company, Edens Expressway and Winnetka Road, Northfield, Illinois 60093.

Name	Number of Shares of Common Stock Beneficially Owned (1)		Percentage of Outstanding Shares of Common Stock (1)
Scott R. Behrens	54,040	(2)	*
Michael R. Boyce.	13,046	(3)	*
Randall S. Dearth	9,841	(4)	*
Joaquin Delgado	9,811		*
Matthew J. Eaken	11,848	(5)	*
Jennifer Ansbro Hale	—		*
Gregory E. Lawton	24,035	(6)	*
Arthur W. Mergner	57,673	(7)	*
Sean T. Moriarty	23,504	(8)	*

Jan Stern Reed	4,491		*
Luis E. Rojo	474	(9)	*
F. Quinn Stepan	1,108,031	(10)	4.9%
F. Quinn Stepan, Jr.	894,257	(11)	4.0%
Edward J. Wehmer	24,050	(12)	*
All Directors and Executive Officers	2,575,608	(13)	11.4%

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

(1) Based on 22,561,685 shares of Common Stock outstanding as of March 5, 2019. Number of shares of Common Stock 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 of Common Stock 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 or stock appreciation rights ("SARs") granted pursuant to the Company's incentive compensation plans, and (c) shares of Common Stock pledged as security by such director, nominee for director, or executive officer, or such person's family members.

(2) Includes (a) 3,592 shares of Common Stock allocated to Mr. Behrens under the Company's Employee Stock Ownership Plan II ("ESOP II"), (b) 15,724 shares of Common Stock that Mr. Behrens has the right to acquire through the exercise of stock options granted pursuant to the Company's incentive compensation plans, (c) 8,120 shares of Common Stock that Mr. Behrens has the right to acquire through the exercise of SARs granted pursuant to the Company's incentive compensation plans, and (d) 8,860 shares of Common Stock credited to Mr. Behrens' stock account under the Management Incentive Plan (as amended and restated effective January 1, 2015, 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.

(3) Includes 735 shares of Common Stock credited to Mr. Boyce's account pursuant to the Company's incentive compensation plans.

(4) Includes 1,234 shares of Common Stock credited to Mr. Dearth's account pursuant to the Stepan Company Directors Deferred Compensation Plan (as amended and restated as of January 1, 2012).

(5) Includes (a) 2,327 shares of Common Stock allocated to Mr. Eaken under ESOP II, (b) 2,554 shares of Common Stock that Mr. Eaken has the right to acquire through the exercise of stock options granted pursuant to the Company's incentive compensation plans, and (c) 1,820 shares of Common Stock that Mr. Eaken has the right to acquire through the exercise of SARs granted pursuant to the Company's incentive compensation plans.

(6) Includes 5,606 shares of Common Stock credited to Mr. Lawton's account pursuant to the Company's incentive compensation plans.

(7) Includes (a) 6,429 shares of Common Stock allocated to Mr. Mergner under ESOP II, (b) 13,353 shares of Common Stock that Mr. Mergner has the right to acquire through the exercise of stock options granted pursuant to the Company's incentive compensation plans, (c) 14,529 shares of Common Stock that Mr. Mergner has the right to acquire through the exercise of SARs granted pursuant to the Company's incentive compensation plans, and (d) 8,209 shares of Common Stock credited to Mr. Mergner's stock account under the Management Incentive Plan.

(8) Includes (a) 3,744 shares of Common Stock allocated to Mr. Moriarty under ESOP II, (b) 5,448 shares of Common Stock that Mr. Moriarty has the right to acquire through the exercise of stock options granted pursuant to the Company's incentive compensation plans, (c) 3,209 shares of Common Stock that Mr. Moriarty has the right to acquire through the exercise of SARs granted pursuant to the Company's incentive compensation plans, and (d) 5,305 shares of Common Stock credited to Mr. Moriarty's stock account under the Management Incentive Plan.

(9) Includes 74 shares of Common Stock allocated to Mr. Rojo under ESOP II.

(10) Includes (a) 505,222 shares of Common Stock held by Stepan Venture II, a family-owned limited partnership for which Mr. Stepan is the managing member of the sole general partner, (b) 96 shares of Common Stock allocated to Mr. Stepan under ESOP II, and (c) 305,143 shares of Common Stock credited to Mr. Stepan's stock account under the Management Incentive Plan.

(11) Includes (a) 11,274 shares of Common Stock allocated to Mr. Stepan, Jr. under ESOP II, (b) 127,147 shares of Common Stock that Mr. Stepan, Jr. has the right to acquire through the exercise of stock options granted pursuant to the Company's incentive compensation plans, (c) 39,828 shares of Common Stock that Mr. Stepan, Jr. has the right to acquire through the exercise of SARs granted pursuant to the Company's incentive compensation plans, and (d) 99,910 shares of Common Stock credited to Mr. Stepan, Jr.'s stock account under the Management Incentive Plan.

(12) Includes 13,650 shares of Common Stock credited to Mr. Wehmer's account pursuant to the Company's incentive compensation plans.

(13) As of March 5, 2019, directors and executive officers as a group had (a) 30,075 shares of Common Stock allocated to them under ESOP II, (b) the right to acquire 176,431 shares of Common Stock through the exercise of stock options, (c) the right to acquire 78,827 shares of Common Stock through the exercise of SARs, and (d) 428,183 shares of Common Stock credited to their stock accounts under the Management Incentive Plan. In addition, the amount shown includes 265,850 shares of Common Stock that were held in the Company's qualified plans and deemed beneficially owned by the Plan Committee, which is comprised of executive officers of the Company. The Plan Committee 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”). Bank of America expressly disclaims any beneficial ownership in the securities of this plan.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 (the “Exchange Act”) and the rules thereunder require the Company’s executive officers, directors, and persons who own more than ten percent of the Common Stock, to file reports of beneficial ownership and changes in beneficial ownership of Common Stock with the SEC. Based solely upon a review of such reports filed with the SEC and written representations from certain reporting persons, the Company believes that all such required reports have been timely filed.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Policies and Procedures for Approving Related Person Transactions

The Company has adopted a written policy entitled "Stepan Company Related Party Transaction Policy and Procedures." The policy was initially approved by the Audit Committee of the Board of Directors in February 2007, has been annually reviewed by the Audit Committee and was last amended in April 2017 ("Related Party Transaction Policy"). This policy applies to material 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, nominee for election as a director, beneficial owner of five percent or more of the Company's Common Stock, or immediate family member of these persons, or any entity for which any of the foregoing persons is an executive officer, general partner, managing member, principal or greater than five percent beneficial owner. The Related Party Transaction Policy states that the Company will consummate a Related Party Transaction only when the Audit Committee approves the transaction after considering the factors set forth in the Related Party Transaction Policy. If advance Audit Committee approval of a Related Party Transaction is not feasible, then the Company may preliminarily enter into the transaction upon prior approval by the Chair of the Audit Committee, subject to ratification of the transaction by the Audit Committee at its next regularly scheduled meeting. No director may participate in the approval of a Related Party Transaction for which he or she is a Related Party.

The factors considered by the Audit Committee in its evaluation of a Related Party Transaction include the relevant facts and circumstances of the proposed Related Party Transaction, whether the Related Party Transaction is on terms comparable to those that could be obtained in arm's-length dealings with an unrelated third party, the extent of the related party's interest in the transaction and the conflicts of interest and corporate opportunity provisions of the Company's Code of Conduct.

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 an officer of the Company nor a director or nominee for director. As an employee of the Company, Mr. Richard Stepan receives a base salary, short-term and long term incentive compensation as appropriate for his position and other regular and customary employee benefits generally available to all Company employees, and is eligible for other limited perquisites available to employees at his level within the organization. For 2018, Mr. Richard Stepan was paid a salary of $192,933, short-term incentive compensation of $59,740 and a long-term incentive compensation award of stock options, SARs and performance shares with a target value of $80,000. Mr. Richard Stepan also participated in other regular and customary employee benefit programs generally available to all Company employees. The Audit Committee approved the Company's employment of Mr. Richard Stepan pursuant to the Related Party Transaction Policy and 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 Chairman and Chief Executive Officer and Chief Financial Officer. The Company's Corporate Governance Guidelines and Code of Conduct are available at http://www.stepan.com, under "Investor Relations—Corporate Governance." Stockholders may also request free printed copies 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 four standing committees: the Audit Committee, the Compensation and Development Committee, the Compliance Committee, and the Nominating and Corporate Governance Committee, each composed entirely of independent directors. The charter of each committee is available at http://www.stepan.com under "Investor Relations—Corporate Governance."

- Audit Committee

The primary functions of the Audit Committee are to (a) assist the Board of Directors in fulfilling its oversight responsibilities to stockholders, the investment community and creditors in relation to (i) the quality and integrity of the Company's financial statements, (ii) the adequacy of the Company's internal control over financial reporting, (iii) the Company's compliance with legal and regulatory requirements (in coordination with the Compliance Committee), (iv) the registered public accounting firm's qualifications and independence and (v) the performance of the independent auditors and the Company's internal audit function and (b) prepare the Audit Committee report included in each proxy statement. The responsibilities of the Audit Committee include annual selection and engagement of the Company's independent registered public accounting firm, review of the proposed fees and scope of work of the independent registered public accounting firm's year-end audit, review with the Company's independent registered public accounting firm of the results of the year-end audits of the Company's financial statements and internal control over financial reporting, review of the Company's financial statements with the Company's independent registered public accounting firm prior to the Company's filing of each quarterly report on Form 10-Q and annual report on Form 10-K, review of findings reported by the Company's internal audit department and management's responses, review of the internal audit program of the Company and review and approval or disapproval of Related Party Transactions pursuant to the Company's Related Party Transaction Policy. The Audit Committee held four meetings in 2018.

The members of the Audit Committee in 2018 were Mr. Boyce, Mr. Dearth, Dr. Delgado, Mr. Lawton, Ms. Reed and Mr. Wehmer (Chair), all of whom are financially literate and 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.

- Compensation and Development Committee

The primary functions of the Compensation and Development Committee are to (a) establish and administer the Company's policies, programs and procedures for compensating its executive management and (b) provide advice and counsel to the Company regarding executive development and succession planning. The responsibilities of the Compensation and Development Committee include reviewing and setting or recommending the compensation of the Company's executive officers, recommending and administering cash-based and equity-based incentive compensation plans, reviewing and recommending director compensation, reviewing and recommending the Company's

Compensation Discussion and Analysis included in each proxy statement, and preparing the Compensation and Development Committee Report included in each proxy statement. The Compensation and Development Committee held five meetings in 2018.

The members of the Compensation and Development Committee in 2018 were Mr. Boyce, Mr. Dearth, Dr. Delgado, Mr. Lawton (Chair), Ms. Reed and Mr. Wehmer, 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."

- Compliance Committee

The primary functions of the Compliance Committee are to assist the Board in fulfilling its oversight responsibilities with respect to the Company's overall compliance with significant legal and regulatory requirements, as well as compliance with its business ethics policies and Code of Conduct. The Compliance Committee held six meetings in 2018.

The members of the Compliance Committee in 2018 were Mr. Boyce, Mr. Dearth, Dr. Delgado, Mr. Lawton, Ms. Reed (Chair) and Mr. 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."

• Nominating and Corporate Governance Committee

The primary functions of the Nominating and Corporate Governance Committee are to (a) identify individuals qualified to become board members and recommend the director nominees for election at each annual meeting of stockholders, (b) develop and recommend the Company's Corporate Governance Guidelines, (c) oversee the evaluation of the Board of Directors and (d) recommend the members for each Board committee. In addition, the responsibilities of the Nominating and Corporate Governance Committee include making recommendations to the Board on corporate governance matters and the Board's structure. The Nominating and Corporate Governance Committee held three meetings in 2018.

The members of the Nominating and Corporate Governance Committee in 2018 were Mr. Boyce (Chair), Mr. Dearth, Dr. Delgado, Mr. Lawton, Ms. Reed and Mr. 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."

In 2017, the Nominating and Corporate Governance Committee formed a subcommittee, consisting of Mr. Boyce (Chair), Mr. Dearth, Dr. Delgado and Ms. Reed, to oversee certain matters on behalf of the Nominating and Corporate Governance Committee. This subcommittee held one meeting in 2018.

Board Performance Evaluations

Annually, each director completes an evaluation of the full Board of Directors and of each standing committee on which the director serves. An independent third-party advisor compiles the results of the assessments and provides the results to the Chair of the Nominating and Governance Committee, who discusses the results with the Lead Independent Director and Chair of the Audit Committee and the Chair of the Compensation and Development Committee. The Chair of the Nominating and Corporate Governance Committee then presents the results to that Committee and to the Board of Directors. The Board of Directors initially discusses the assessment results with the Chairman and Chief Executive Officer in attendance, and if desired by any director, the assessment results are also discussed at Executive Sessions of the non-management directors. This assessment evaluates the Board of Directors' composition and contribution as a whole to the Company and reviews areas in which the Board of Directors and/or management believes a stronger contribution could be made. The Nominating and Corporate Governance Committee is also 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 2018, the Board of Directors held five meetings. During 2018, all of the directors attended greater than 75% 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 requiring attendance at the Company's Annual Meeting of Stockholders. All directors attended the 2018 Annual Meeting of Stockholders and are currently expected to attend the 2019 Annual Meeting of Stockholders.

Director Nomination Process

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 director nominees 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.

It is the policy of the Nominating and Corporate Governance Committee to consider candidates recommended by stockholders for membership on the Board of Directors. 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. Any stockholder recommendations 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 recommendation for the 2020 Annual Meeting of Stockholders is set forth in the "2020 Stockholder Proposals" section below.

Board Diversity

In accordance with the Company's Corporate Governance Guidelines, when identifying director nominees, the Nominating and Corporate Governance Committee and the Board of Directors consider a broad definition of diversity. This definition includes, but is not limited to, diversity of professional, technical, operational, international and financial experience, skills and characteristics. The Board has also considered experience related to the Company's business and industry. 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 uses the New York Stock Exchange director independence standards. No director qualifies as "independent" unless the Board of Directors affirmatively determines that the 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). 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 has received, or has an immediate family member who has received, during any 12-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 auditor or 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, Compliance Committee and Nominating and Corporate Governance Committee must meet the independence standards set forth above. The Board of Directors has determined that each of Mr. Boyce, Mr. Dearth, Dr. Delgado, Mr. Lawton, Ms. Reed and Mr. Wehmer is independent under the standards set forth above. In addition, the Board of Directors has determined that each of the members of the standing committees satisfies the Company's independence standards, including the additional independence standards and financial literacy requirements required for audit committee members and compensation committee members, as applicable, established by SEC and New York Stock Exchange rules.

In making independence determinations, the Nominating and Corporate Governance Committee, with assistance from the Company's legal counsel, evaluated responses to a questionnaire completed annually by each director regarding relationships and possible conflicts of interest between each director, the Company and management. In its review of director independence, the Nominating and Corporate Governance Committee considered the commercial, industrial, banking, consulting, legal, accounting, charitable, and familial relationships any director may have with the Company or management. In addition, the Nominating and Corporate Governance Committee considered any relationships between the Company and entities for which any director serves as management or a member of the board of directors. The Nominating and Corporate Governance Committee recommended, and the Board of Directors approved, that the six directors named above be considered independent.

Mr. Stepan and Mr. Stepan, Jr. are not deemed independent under the rules of the New York Stock Exchange because Mr. Stepan was employed by the Company as its Chairman until December 2016, and Mr. Stepan, Jr. serves as the Chairman and Chief Executive Officer of the Company.

Board Leadership Structure

The Board of Directors regularly reviews its leadership structure in light of the Company's then-current needs, trends, internal assessments of Board effectiveness, and other factors. The Board does not have a policy regarding the separation of the roles of Chief Executive Officer and Chairman of the Board because the Board believes it is in the best interests of the Company to make that determination based on the position and direction of the Company and the membership of the Board.

Currently, the Board believes the interests of the Company and its stockholders are best served through a leadership model with a combined Chairman and Chief Executive Officer position and a Lead Independent Director. The current Chairman and Chief Executive Officer, Mr. Stepan, possesses extensive knowledge and understanding of the Company and its operations, strategic planning and industry, developed during his over 30-year career with the Company. The Board believes that Mr. Stepan's experience puts him in the best position to provide broad leadership for the Board as it works to deliver value to stockholders.

To aid the Board of Directors' independent oversight of the Company and management, the Board has elected Mr. Wehmer as Lead Independent Director. The Board believes that the election of the Lead Independent Director enhances the Board's commitment to maintaining strong corporate governance and provides effective independent Board leadership. Among other responsibilities, the Lead Independent Director presides at all Executive Sessions of the independent directors, advises the Chairman and Chief Executive Officer on Board meeting schedules, agendas and materials, and serves as principal liaison between the independent directors and the Chairman and Chief Executive Officer. In addition, the Lead Independent Director, in consultation with the chairs of the Compensation and Development Committee and the Nominating and Corporate Governance Committee, leads the process for the evaluation of the Chairman and Chief Executive Officer.

In addition, the independent directors regularly meet in Executive Sessions without non-independent directors or management present in accordance with the Company's Corporate Governance Guidelines.

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, leads the Board's oversight of 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 also 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. During 2018, 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

The Company's Corporate Governance Guidelines require Executive Sessions of independent directors to be held at least once per year. Executive Sessions are generally held by the independent directors after every regular Board of Directors meeting and after most Board committee meetings. The Executive Sessions after all regular Board of Directors meetings are chaired by the Lead Independent Director. Any independent director can request that additional Executive Sessions be scheduled. In 2018, five Executive Sessions without management were held by the independent directors and chaired by Mr. Wehmer in his capacity as Lead Independent Director. In addition, Executive Sessions without management were also held after many Board committee meetings during 2018 and were chaired by the respective chairs of the Board committees.

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

The members of the Company's Compensation and Development Committee in 2018 were Mr. Boyce, Mr. Dearth, Dr. Delgado, Mr. Lawton (Chair), Ms. Reed and Mr. Wehmer. None of the members of the Compensation and Development Committee during 2018 had at any time been an officer or employee of the Company nor had any member participated in a Related Party Transaction. In 2018, none of the Company's executive officers served as a member of the compensation committee of another entity, or as a director of another entity, one of whose executive officers served on the Compensation and Development Committee or as one of the Company's directors.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Summary of Executive Compensation in 2018

In 2018, the Company and the Compensation and Development Committee of the Board of Directors (the "Committee") applied the compensation policies and principles described in this Compensation Discussion and Analysis in determining the compensation for the individuals named in the Summary Compensation Table. Those individuals are referred to herein as the named executive officers ("NEOs"). The NEOs for 2018 were:

NEO	Title
F. Quinn Stepan, Jr.	Chairman, President and Chief Executive Officer
Matthew J. Eaken (1)	Vice President, Corporate Controller and Former Interim Chief Financial Officer
Luis E. Rojo (2)	Vice President and Chief Financial Officer
Scott R. Behrens	Vice President and General Manager – Surfactants
Arthur W. Mergner	Vice President – Supply Chain
Sean T. Moriarty	Vice President and General Manager – Polymers
Jennifer Ansbro Hale (3)	Former Vice President, General Counsel, Chief Compliance Officer and Secretary

(1) Mr. Eaken served as the Company's Interim Chief Financial Officer from January 1, 2018 until May 1, 2018.
(2) Mr. Rojo joined the Company as Vice President and Chief Financial Officer on May 2, 2018.
(3) Ms. Hale served as the Company's Vice President, General Counsel, Chief Compliance Officer and Secretary until September 30, 2018.

Significant Achievements and Developments in 2018

Record Company Performance

(1) In 2018, the Company achieved record net income for the third consecutive year. The Company achieved net income of $112.8 million compared to $91.6 million net income in 2017, and adjusted net income of $113.8 million versus $108.7 million in 2017, a 5% increase.[1]
(2) Reported Surfactant operating income was a record $137.5 million, up from $120.9 million in 2017.
(3) The Company's internal and global operating efficiency program, DRIVE, delivered $24.5 million in cash savings in 2018 along with $37.6 million in profit optimization.

Key Developments Impacting Executive Compensation

(1) The Company's advisory Say-on-Pay vote was supported by 97% of votes cast at the Company's 2018 Annual Meeting.
(2) After considering all components of the total compensation paid to the NEOs in 2018, the Committee determined that the 2018 NEO compensation was competitive, reasonable, and aligned with both Company performance and stockholder interests.

[1] Adjusted net income is a financial measure that has not been calculated pursuant to U.S. generally accepted accounting principles ("GAAP"). See Appendix A for a GAAP reconciliation.

Executive Compensation Best Practices the Company Follows

What We Do	What We Don't Do
Pay for Performance—a Majority of our NEOs' Annual Total Compensation is Variable and at Risk	No Grants of Discounted Stock Options or Stock Appreciation Rights
Align Executives' Total Compensation Mix with Stockholders' Interests	No Repricing or Replacing Outstanding Stock Options or Stock Appreciation Rights Without Stockholder Approval
Require Significant Executive Stock Ownership	No Employment Agreements That Guarantee Employment or Compensation
Limit Performance-Based Incentive Awards to a Maximum of 200% of Target	No Standing Individual Severance or Change-in-Control Agreements
Provide Limited Executive Perquisites	No Use of Excise Tax Gross-Ups
Subject Incentive Compensation to a Clawback Policy	No Dividend Payments on Unearned Performance Shares

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 our employees with the interests of our stockholders.

The Company's guiding philosophy in setting 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 and externally with like or comparable positions based on job descriptions and responsibilities at similarly sized companies within the Company's industries, and Peer Group (as defined below) and other appropriate related industry data or survey information. The Company's compensation philosophy is reviewed at least 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 a chemical industry peer group as well as aggregate executive compensation survey data to annually assess executive compensation as described below under "Compensation Peer Group and Survey Data." Except for the limits regarding incentive compensation as 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 Objectives

The overall objectives of the Company's compensation programs (in which each NEO participates) 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 market-competitive levels of compensation; and
- attract and retain employees of outstanding ability.

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 may, in its discretion, delegate all or a portion of its duties and responsibilities to a subcommittee or, to the extent permitted by applicable law, to any other body or individual.

Role of the Compensation Consultant

The Committee engaged Exequity LLP ("Exequity") as its independent compensation consultant for 2018. Exequity advises the Committee on a range of executive compensation matters. The scope of Exequity's services to the Committee includes, but is not limited to, the following:

- Providing the Committee with an assessment of the market competitiveness of the Company's executive compensation.
- Apprising the Committee of executive compensation-related trends and developments in the marketplace.
- Informing the Committee of regulatory developments relating to executive compensation practices.
- Assisting the Committee with goal-setting, calibrating levels of pay to various levels of performance, and pay for performance alignment.
- Comparing Company executive compensation plan designs and practices to the marketplace.
- Recommending changes to the executive compensation program to maintain competitiveness and ensure consistency with business strategies, good governance practices and alignment with stockholder interests.

Exequity reports directly to the Committee. The Committee assessed Exequity's independence pursuant to SEC rules and determined that no conflict of interest exists that would prevent Exequity from independently advising the Committee. Exequity does not provide any other services to management or the Company.

Role of Executives in Establishing Compensation

The Committee determines the compensation of the Chairman and Chief Executive Officer. The Chairman and Chief Executive Officer and the most senior Human Resources officer make recommendations to the Committee regarding compensation for all other executive officers, including the NEOs other than the Chairman and Chief Executive Officer. The Committee then reviews these recommendations and approves the final compensation for all executive officers. 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 "Compensation Peer Group and Survey Data" and "Elements of Compensation" sections below.

Advisory Vote on Executive Compensation

The advisory vote in 2018 was the eighth consecutive year that the Company's Say-on-Pay vote was supported by its stockholders with the approval of more than 96% of the votes cast at the annual meeting of stockholders. The Committee acknowledges and values the feedback from the Company's stockholders on the annual Say-on-Pay vote and believes that these results demonstrate stockholder support of the Company's executive compensation programs. As a result of the strong stockholder support for the 2018 Say-on-Pay vote, the Committee determined that the Company's compensation practices and processes did not require any significant modifications to achieve the desired results of the Company's compensation program or to address stockholder concerns. The Committee will continue to consider the outcome of these advisory votes when determining future executive compensation arrangements.

Executive Pay Mix

The Company targets a total compensation mix where fixed pay, consisting of base salary, is less than half of the total compensation that any NEO or executive officer may earn in any given year. The combined mix of both short-term and long-term incentives for executive officer compensation is structured to encourage the necessary focus and motivation to achieve outstanding results on an ongoing basis, both in the short term and long term. In addition, the combined focus on both short-term and long-term objectives aligns executive officers' and stockholders' interests. 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. The Company's total compensation targets assume above-average Company performance, and potential compensation can vary considerably depending on overall Company performance. The graphics below illustrate the pay mix for our Chairman and Chief Executive Officer and other NEOs (on an average basis, excluding Matthew Eaken due to his interim status) using target level of performance for all incentive awards.

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Compensation Peer Group and Survey Data

To better understand the compensation practices of similar companies, the Committee reviews data gathered from a custom peer group ("Peer Group") and general market survey data from Mercer LLC ("Mercer"). Information gathered from the Peer Group serves as the primary reference point for the Committee, with Mercer survey data used as a secondary reference.

The Peer Group consists of companies selected on the basis of chemical industry affiliation and size (e.g., total revenues and market capitalization). The following companies comprised the Peer Group that the Committee referenced when setting 2018 compensation:

Albemarle Corporation	Chemtura Corporation	Innospec Inc.	OMNOVA Solutions Inc.
A. Schulman, Inc.	Ferro Corporation	Koppers Holdings, Inc.	PolyOne Corporation
Axiall Corporation	H.B. Fuller Company	Kraton Corporation	Quaker Chemical Corporation
Cabot Corporation	Innophos Holdings, Inc.	NewMarket Corporation	Sensient Technologies Corporation

The Committee undertakes annual evaluations of the Peer Group in order to ensure the Company is comparing itself with companies that have the characteristics to appropriately match the Company. Exequity performed a review of the Company's Peer Group in July 2018 and, as a result of such review, the Committee removed Chemtura Corporation, which was acquired in 2018, from the Company's Peer Group and added the following four companies to the Company's Peer Group for 2019: AdvanSix Inc., Ashland Global Holdings, Inc., PQ Group Holdings Inc., and RPM International Inc. The Committee and its independent compensation consultant will continue to monitor the Peer Group going forward as appropriate.

When assessing the competitiveness of Company compensation programs, the Committee generally reviews median compensation levels in the Peer Group. The Committee generally references median total compensation for executive officers (plus or minus 15% of the 50^{th} percentile), but the Committee retains discretion to determine appropriate compensation levels and the Company does not benchmark compensation. The Committee believes that all NEOs' and executive officers' total compensation amounts are within appropriate and reasonable levels as compared to the Peer Group data considering experience level, time in position, global job grades and both external and internal equity evaluations.

Elements of Compensation

For the fiscal year ended December 31, 2018, the principal elements of compensation for the executive officers, including the NEOs, were as follows:

Compensation Element	Purpose	Description
Base Salary	To attract and retain employees of outstanding abilities	Fixed component of pay based on specific position salary ranges determined by job responsibilities, Peer Group data and performance
Short-Term Incentive Compensation	To drive improved year-over-year financial performance; to motivate, attract and retain employees; and to align executives' interests directly with Company financial objectives	Variable, annual, at-risk cash component of pay that rewards achievement of pre-determined Company and individual goals
Long-Term Incentive Compensation	To promote retention of executives, to reward outstanding Company performance, to encourage a focus on the Company's long-term financial results, and to align executive interests with stockholder interests	Variable, at-risk, equity component of pay for eligible participants that rewards stockholder value creation over the long term
Retirement Benefits	To promote retention and to attract outstanding employees and to provide employees with a tax deferred retirement savings vehicle directly connected to the Company's financial results	Company dollar-for-dollar matching contribution up to six percent of base salary under a Savings and Investment Retirement Plan for all U.S. employees, plus supplemental contributions based on the Company's financial results
Perquisites	To attract and retain superior employees for key positions	Executives and key employees, including the NEOs, are eligible for a limited amount of perquisites which are provided to be market competitive
Other Benefits	To provide for basic life, health and security needs	Benefit programs that are available to all U.S. salaried employees

Base Salary

The Company has established salary grades and ranges for all global employees, including the NEOs. Salary grades reflect the responsibility level of the position, i.e., positions with a greater level of responsibility have a higher salary grade. The salary range for each grade is primarily based on survey data. The salary grade structure enables the Company to ensure that pay among executives is both market competitive and internally equitable.

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

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The NEOs' base salaries for 2018 are shown below:

NEO	2018 Base Salary
F. Quinn Stepan, Jr., Chairman, President and Chief Executive Officer	$930,000
Matthew J. Eaken, Vice President, Corporate Controller and Former Interim Chief Financial Officer	$244,180
Luis E. Rojo, Vice President and Chief Financial Officer	$380,000
Scott R. Behrens, Vice President and General Manager – Surfactants	$400,000
Arthur W. Mergner, Vice President – Supply Chain	$400,000
Sean T. Moriarty, Vice President and General Manager – Polymers	$350,000
Jennifer Ansbro Hale, Former Vice President, General Counsel, Chief Compliance Officer and Secretary	$355,000

Short-Term Incentive Compensation

The Company grants short-term incentive compensation to the NEOs and certain other employees under the Management Incentive Plan. The purpose of the Company's short-term incentive compensation program 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 the Company's financial targets. The target amount of short-term incentive compensation for each NEO is expressed as a percentage of the executive's actual base salary earned each calendar year. Because senior managers have a greater ability to impact Company results, a significant percentage of their total target compensation is at-risk.

The Chairman and Chief Executive Officer has the highest level of responsibility, and therefore, his target and maximum annual incentive percentages exceed the other NEOs' target and maximum annual incentive percentages.

The following chart reflects the Target Annual Incentive Award, Maximum Annual Incentive Award, and Annual Incentive Award Earned for each NEO for 2018 under the terms of the Management Incentive Plan:

NEO	Target Annual Incentive Award (% of Base Salary)	Maximum Annual Incentive Award (% of Base Salary)	Annual Incentive Award Earned (% of Base Salary)
F. Quinn Stepan, Jr., Chairman, President and Chief Executive Officer	100%	200%	76.41%
Matthew J. Eaken, Vice President, Corporate Controller and Former Interim Chief Financial Officer	48%	96%	36.25%
Luis E. Rojo, Vice President and Chief Financial Officer	60%	120%	52.82%
Scott R. Behrens, Vice President and General Manager – Surfactants	60%	120%	51.91%
Arthur W. Mergner, Vice President – Supply Chain	60%	120%	52.82%
Sean T. Moriarty, Vice President and General Manager - Polymers	60%	120%	26.95%
Jennifer Ansbro Hale, Former Vice President, General Counsel, Chief	60%	120%	—

Compliance Officer and Secretary (1)

(1) Ms. Hale was not employed with the Company on December 31, 2018 and therefore was not eligible to receive a short-term incentive award for 2018.

Within the Target Annual Incentive Award ranges shown above, each NEO's annual incentive payment is determined based on the Company's overall financial performance ("Corporate Financial Performance Objectives") and the achievement of individual performance objectives ("Individual Performance Objectives"), as described below.

The extent, if any, to which an incentive award will be payable to a NEO will be based solely upon the degree of achievement of pre-established performance goals over the specified calendar year. In years when Company performance is exceptional and above the Target level, it is possible for NEOs to receive annual incentive payments above Target, while in years when Company performance is below the Threshold level, no annual incentive will be paid based upon Company performance. In addition, the Committee may, in its sole discretion, reduce or eliminate the amount that would otherwise be payable to the NEO with respect to a calendar year.

- Corporate Financial Performance Objectives

The Committee establishes the Corporate Financial Performance Objectives at the beginning of each calendar year. For 2018, the Committee established targets for the two Corporate Financial Performance Objectives for all NEOs: Corporate Net Income and Corporate Growth Goal.[2]

[2] Corporate Net Income is a non-GAAP measure. See Appendix A for a definition.

For 2018, the following performance levels were established for the Corporate Net Income objective:

	Threshold	Target	Maximum
Corporate Net Income	$94.0 million	$118.0 million	$138.0 million

The Corporate Growth Goal consisted of specified sales volume growth goals for four categories of products and customers. Each of the four categories of products and customers had an assigned sales volume growth goal, with target increases over 2017 sales. The growth goals were based upon strategic growth priorities for the Company, and were designed to be difficult but achievable. Growth goals were established for the following categories: Rigid Polyols, CASE Polyols, Functional Surfactants and Tier 2 and Tier 3 Surfactants Customers.

For 2018, the following payout levels were established for the Corporate Growth Goal:

	0% Payout	25% Payout	50% Payout	75% Payout	100% Payout
Corporate Growth Goal	0 of 4	1 of 4	2 of 4	3 of 4	4 of 4

Each NEO's annual incentive objectives include these Corporate Financial Performance Objectives. For 2018, all NEOs had at least 40% of their annual incentives tied to these objectives. Of the 40%, an 80% weighting was assigned to the Corporate Net Income objective and a 20% weighting was assigned to the Corporate Growth Goal.

The following table shows the Company's performance against the Corporate Net Income and Corporate Growth Goal objectives in 2018:

Objective	2018 Results	2018 Target	2018 Payout Against Target
Corporate Net Income	$114.4 million	$118.0 million	88.8%
Corporate Growth Goal	1 of 4	4 of 4	25.0%

For 2018, the Company did not achieve the Corporate Net Income Target objective of $118.0 million, with a result of $114.4 million. While the Corporate Net Income objective was not achieved at Target, the Company had record net income for 2018. The Company believes that to be a significant achievement which benefits all stockholders.

For 2018, the Company achieved 88.8% of the Corporate Net Income target level and one of the four components of the Corporate Growth Goal.

- Individual Performance Objectives

The Chairman and Chief Executive Officer and the Committee agreed upon the Chairman and Chief Executive Officer's Individual Performance Objectives at the beginning of 2018. For executives other than the Chairman and Chief Executive Officer, the Chairman and Chief Executive Officer and the executive agree upon Individual Performance Objectives at the beginning of each calendar year. These Individual Performance Objectives may either be financial objectives for a particular business segment or organization, or achievement of certain financial, cultural, safety, service or other strategic objectives specific to their function and responsibility. For each business segment leader, the financial performance of the executive’s segment comprises a significant portion of the executive’s Individual Performance Objectives. For example, for 2018, global surfactant operating income comprised 40% of the short-term incentive compensation objectives for Mr. Behrens, the Company’s Vice President and General Manager – Surfactants, and global polymer operating income comprised 40% of the short-term incentive compensation objectives for Mr. Moriarty, the Company’s Vice President and General Manager – Polymers.

For 2018, the Corporate Financial Performance Objectives and Individual Performance Objectives weightings and results for the NEOs were as follows:

NEO	Corporate Financial Performance Objectives		DRIVE Initiatives (1)		Safety Objectives (2)		Individual Objectives (3)	
	Weight	Payout	Weight	Payout	Weight	Payout	Weight	Payout
F. Quinn Stepan, Jr., Chairman, President and Chief Executive Officer	80.00%	60.80%	—	—	—	—	20.00%	15.60%
Matthew J. Eaken, Vice President, Corporate Controller and Former Interim Chief Financial Officer	50.00%	38.02%	12.50%	12.50%	5.00%	5.00%	32.50%	20.00%
Luis E. Rojo, Vice President and Chief Financial Officer	50.00%	38.02%	10.00%	10.00%	5.00%	5.00%	35.00%	35.00%
Scott R. Behrens, Vice President and General Manager – Surfactants	40.00%	30.42%	—	—	5.00%	5.00%	55.00%	51.00%
Arthur W. Mergner, Vice President – Supply Chain	50.00%	38.02%	10.00%	10.00%	5.00%	5.00%	35.00%	35.00%
Sean T. Moriarty, Vice President and General Manager – Polymers	50.00%	30.42%	—	—	5.00%	5.00%	55.00%	9.50%
Jennifer Ansbro Hale, Former Vice President, General Counsel, Chief Compliance Officer and Secretary	50.00%	—	—	—	5.00%	—	45.00%	—

(1) The objective consisted of cost savings from DRIVE initiatives.
(2) The objective consisted of global OSHA recordable rate.
(3) Individual objectives include cultural, corporate development, financial, compliance and strategic initiative goals that relate to each executive's areas of responsibility. Mr. Stepan's individual objective also included a safety objective.

The amounts earned by the NEOs under the Company's short-term compensation program for 2018 are set forth in the Non Equity Incentive Plan Compensation column of the Summary Compensation Table.

Long-Term Incentive Compensation

The Committee typically grants stock options, SARs and performance shares annually to the NEOs under the Company's long-term incentive plan. In 2018, the Committee reviewed and approved an allocation of long-term incentives for the NEOs other than the Chairman and Chief Executive Officer at approximately 15% of the total grant amount as stock options, 45% of the total grant amount as SARs, and 40% of the total grant amount as performance shares. The long-term incentive components for the Chairman and Chief Executive Officer were allocated 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 allocation for the Chairman and Chief Executive Officer due to the fact that the Chairman and Chief Executive Officer has delivered multiple successive years of record performance and has the highest level of responsibility for the Company's direction.

NEO	Stock Option Value	Stock Appreciation Rights Value	Performance Shares Value	Total 2018 LTI Value
F. Quinn Stepan, Jr., Chairman, President and Chief Executive Officer	$600,000	$600,000	$800,000	$2,000,000

Matthew J. Eaken, Vice President, Corporate Controller and Former Interim Chief Financial Officer	$18,750	$56,250	$50,000