

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

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

Date of report (Date of earliest event reported) February 13, 2007

STEPAN COMPANY

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or Other Jurisdiction of Incorporation)

1-4462

(Commission File Number)

36-1823834

(I.R.S. Employer Identification No.)

Edens and Winnetka Road, Northfield, Illinois

(Address of Principal Executive Offices)

60093

(Zip Code)

Registrant's telephone number, including area code: (847) 446-7500

Former name or former address, if changed since last report: Not Applicable

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

On February 13, 2007, the Compensation and Development Committee (the "Committee") of the Board of Directors (the "Board") of Stepan Company ("Stepan") granted non-qualified stock options and performance shares to the executive officers of Stepan in accordance with the provisions of the Stepan Company 2006 Incentive Compensation Plan (the "Plan"). The Committee is comprised entirely of independent directors. The Plan was previously approved by the stockholders of Stepan at the Stepan Annual Meeting of Stockholders on April 25, 2006.

The non-qualified stock options and performance shares granted by the Committee to the executive officers of Stepan on February 13, 2007, were as follows:

| <u>Name and Position</u> | <u>Number of Non-Qualified Stock Options</u> | <u>Number of Performance Shares</u> |
|---|--|---|
| F. Quinn Stepan, Jr., President and Chief Executive Officer | 30,000 | 6,000 |
| F. Quinn Stepan, Chairman | 0 | 0 |
| James E. Hurlbutt, Vice President, Finance | 3,500 | 2,000 |
| Frank Pacholec, Vice President, Research and Development | 3,500 | 2,000 |
| Gregory Servatius, Vice President, Human Resources | 3,500 | 2,000 |
| John V. Venegoni, Vice President and General Manager, Surfactants | 7,000 | 3,500 |
| Robert J. Wood, Vice President and General Manager, Polymers | 7,000 | 3,500 |
| H. Edward Wynn, Vice President, General Counsel and Secretary | 3,500 | 2,000 |
| Anthony J. Zoglio, Vice President, Supply Chain | 7,000 | 3,500 |

The Plan also allows the Committee to grant incentive stock options to the executive officers of Stepan. However, the Committee did not grant such options on February 13, 2007, but may in the future in accordance with the Plan.

Any stock options or performance shares granted to an executive officer pursuant to the Plan will be evidenced by an Incentive Stock Option Agreement, Non-Qualified Stock Option Agreement or Restricted Stock Agreement in the forms attached as Exhibits 10.1, 10.2 and 10.3 hereto and incorporated herein by reference.

The non-qualified stock options listed above vest after each executive officer completes two (2) continuous years of employment following the date of the grant (i.e., February 13, 2009) and expire on the date which is the earliest of eight (8) years after the date of the grant (i.e., February 12, 2015) or the date on which the executive officer's employment with Stepan is terminated for any reason other than by disability, death or normal retirement (or early retirement with Stepan's approval). The option price of each share of stock for these grants is the Fair Market Value, which the Plan defines as the average of the opening price and the closing price of Stepan Common Stock on the date of the grant. In this instance, the option price on February 13, 2007 is \$31.70. Other terms and conditions of these grants are as set forth in the Non-Qualified Stock Option Agreement between each executive officer and Stepan in the form attached as Exhibit 10.2 hereto.

Performance shares are rights to receive shares of Stepan Common Stock based on the attainment of performance goals established by the Committee measured over a given performance period. For the above-listed performance shares, the performance period is the period beginning on January 1, 2007, and ending on December 31, 2009. The performance shares are also subject to the risk of forfeiture conditions and other terms, conditions and restrictions as set forth in the Restricted Stock Agreement between the executive officer and Stepan in the form attached as Exhibit 10.3 hereto. If the employment of the executive officer is terminated for any reason during the performance period, the executive officer shall immediately forfeit to Stepan all of said performance shares, without any consideration paid to the executive officer, and, thereafter, the executive officer shall have no further rights with respect to such performance shares. Stepan shall be authorized to cancel such shares at the end of the performance period.

Item 9.01 Financial Statements and Exhibits.

(c) Exhibits

| Exhibit Number | Description |
|-----------------------|--|
| 10.1 | Form of Incentive Stock Option Agreement under Stepan Company 2006 Incentive Compensation Plan |
| 10.2 | Form of Non-Qualified Stock Option Agreement under Stepan Company 2006 Incentive Compensation Plan |
| 10.3 | Form of Restricted Stock Agreement under Stepan Company 2006 Incentive Compensation Plan |

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

STEPAN COMPANY

By: /s/ Kathleen M. Owens

Kathleen M. Owens

Assistant Secretary

Date: February 16, 2007

EXHIBIT INDEX

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| 10.3 | Form of Restricted Stock Agreement under Stepan Company 2006 Incentive Compensation Plan |

STEPAN COMPANY
INCENTIVE STOCK OPTION AGREEMENT
2006 INCENTIVE COMPENSATION PLAN

THIS AGREEMENT, dated as of the ____ day of _____, 20__ and entered into by and between Stepan Company, a Delaware corporation (the "Company"), and _____ (the "Participant").

WITNESSETH THAT:

IT IS AGREED, by and between the parties hereto, as follows:

1. In accordance with the provisions of Stepan Company 2006 Incentive Compensation Plan (the "Plan"), the Company hereby grants to the Participant an Incentive Stock Option to purchase a total of _____ shares of common stock of the Company ("Common Stock"). The option price of each share of Common Stock subject to this Agreement shall be \$_____. The right to exercise the option shall be subject to the terms and conditions of the Plan and this Agreement, shall not be exercisable until the Participant completes two (2) years of employment with the Company following the date first written above and shall expire at the earliest of eight (8) years after the date first written above; the date established by the Compensation and Development Committee of the Board of Directors (the "Committee") at the time of the grant; the date which is three months after the date the Participant's employment with the Company is terminated by reason of his normal retirement (or early retirement with the Company's approval) or by reason of death; twelve months after the date the Participant's employment is terminated by reason of his becoming disabled; or the date on which the Participant's employment with the Company is terminated for any other reason.

2. This option may be exercised in whole or in part by filing a written notice with the Secretary of the Company at its corporate headquarters prior to the date the option expires. Such notice shall specify the number of shares of Common Stock which the Participant elects to purchase and shall be accompanied by payment of the option price for such shares. Subject to the provisions of the following sentence, payment shall be cash or by check payable to the Company. All or a portion of such required amount may be paid by delivery of shares of Common Stock having an aggregate fair market value which is equal to the amount of cash which would otherwise be required.

3. In the event of a corporate transaction involving the Company (including, without limitation, any stock dividend, stock split, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination or exchange of shares), the aggregate number of shares of Common Stock subject to this Agreement and the terms of the outstanding stock options may be equitably adjusted by the Committee, in its sole discretion.

4. Except as otherwise provided by the Committee, the option is not assignable or transferable by the Participant other than by will or the laws of descent and distribution and then only as provided herein, and may be exercised during the lifetime of the Participant only by the Participant and only as provided herein. If the option is exercised by the person or persons to whom the rights of the Participant under the option shall pass by will or the laws of descent and distribution, the option may be exercised only in respect of the number of shares which the Participant could have acquired under the option by the exercise thereof at the date of death.

STEPAN COMPANY

BY:

F. Quinn Stepan, Jr.
President and Chief Executive Officer

Participant

STEPAN COMPANY
NON-QUALIFIED STOCK OPTION AGREEMENT
2006 INCENTIVE COMPENSATION PLAN

THIS AGREEMENT, dated as of the ____ day of _____, 20____ and entered into by and between Stepan Company, a Delaware corporation (the "Company"), and _____ (the "Participant").

WITNESSETH THAT:

IT IS AGREED, by and between the parties hereto, as follows:

1. In accordance with the provisions of Stepan Company 2006 Incentive Compensation Plan (the "Plan"), the Company hereby grants to the Participant a Non-Qualified Stock Option to purchase a total of ____ shares of common stock of the Company ("Common Stock"). The option price of each share of Common Stock subject to this Agreement shall be \$____. The right to exercise the option shall be subject to the terms and conditions of the Plan and this Agreement shall not be exercisable until the Participant completes two (2) years of employment with the Company following the date first written above and shall expire at the earliest of eight (8) years after the date first written above; the date established by the Compensation and Development Committee of the Board of Directors (the "Committee") at the time of the grant; or the date on which the Participant's employment with the Company is terminated for any reason other than by disability, death or normal retirement (or early retirement with the Company's approval).

2. This option may be exercised in whole or in part by filing a written notice with the Secretary of the Company at its corporate headquarters prior to the date the option expires. Such notice shall specify the number of shares of Common Stock which the Participant elects to purchase and shall be accompanied by payment of the option price for such shares. Subject to the provisions of the following sentence, payment shall be cash or by check payable to the Company. All or a portion of such required amount may be paid by delivery of shares of Common Stock having an aggregate fair market value which is equal to the amount of cash which would otherwise be required.

3. In the event of a corporate transaction involving the Company (including, without limitation, any stock dividend, stock split, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination or exchange of shares), the aggregate number of shares of Common Stock subject to this Agreement and the terms of the outstanding stock options may be equitably adjusted by the Committee, in its sole discretion.

4. Except as otherwise provided by the Committee, the option is not assignable or transferable by the Participant other than by will or the laws of descent and distribution and then only as provided herein, and may be exercised during the lifetime of the Participant only by the Participant and only as provided herein. If the option is exercised by the person or persons to whom the

rights of the Participant under the option shall pass by will or the laws of descent and distribution, the option may be exercised only in respect of the number of shares which the Participant could have acquired under the option by the exercise thereof at the date of death.

STEPAN COMPANY

BY:

F. Quinn Stepan, Jr.
President and Chief Executive Officer

Participant

STEPAN COMPANY
RESTRICTED STOCK AGREEMENT
2006 INCENTIVE COMPENSATION PLAN

THIS AGREEMENT (the "Agreement"), is made and entered into as of ____ day of _____, 20__ (the "Date of Grant") by and between Stepan Company, a Delaware corporation (the "Company") and (the "Participant").

WITNESSETH THAT:

WHEREAS, the Company has adopted the Stepan Company 2006 Incentive Compensation Plan (the "Plan");

WHEREAS, in accordance with the provisions of the Plan, the Company desires to provide the Participant with an incentive to increase the value of the Company;

WHEREAS, terms not otherwise defined in this Agreement shall have the meanings ascribed to them in the Plan.

NOW, THEREFORE, in consideration of the foregoing and mutual agreements set forth herein, and for other good and valuable consideration, the Company and Participant agree as follows:

1. **Award.** Subject to the terms, conditions and restrictions set forth in this Agreement and in the Plan, the Company hereby grants to the Participant as of the Date of Grant _____ of shares of Stock of the Company (the "Restricted Stock"). The shares of Restricted Stock awarded to the Participant shall be subject to the performance conditions set forth in Section 2 (the "Performance Conditions") and the restrictions on transferability and forfeiture set forth in Section 3 (the "Risk of Forfeiture Conditions").
2. **Performance Conditions.**
 - (a) The Restricted Stock shall be distributed to the Participant if and to the extent that the Threshold, Target or Maximum performance level of the performance goals is achieved, as determined by the Committee in its sole discretion. The number of shares of Restricted Stock awarded hereby shall be adjusted based upon the achievement of a specified level of the Company's Corporate Net Income ("CNI") and Return on Invested Capital ("ROIC") for the Performance Period, as determined by the Committee. The "Performance Period" for purposes of this Agreement is the period beginning on _____ and ending on _____.

- (b) Except as otherwise provided in this Agreement, the number of shares of Restricted Stock that the Participant shall be entitled to receive at the end of the Restricted Period (unless forfeited pursuant to Section 3) shall equal the number of shares of Restricted Stock awarded in accordance with Section 1 hereof, multiplied by the applicable percentage (“Applicable Percentage”), which correspond to the Company’s achieved specified CNI and ROIC for the Performance Period, and which is set by the Committee. For levels of actual performance between the Threshold, Target and Maximum levels of performance achieved, as set by the Committee, the Applicable Percentage will be calculated by prorating between the values assigned to the specified performance levels, giving equal weighting to each of the achieved CNI and ROIC.
 - (c) Any shares of Restricted Stock awarded hereby that the Participant is not entitled to receive at the end of the Restricted Period pursuant to this Section 2 and as determined by the Committee, shall be deemed forfeited, and the Company shall be authorized to cancel such shares at the end of the Restricted Period.
3. **Risk of Forfeiture Conditions.** The Restricted Stock shall be subject to the restrictions on transferability and risk of forfeiture set forth in paragraphs (a) and (b) below (the “Risks of Forfeiture”) until such Risks of Forfeiture lapse in accordance with the terms of this Agreement. Upon a lapse of the Risks of Forfeiture, the Restricted Stock to which the Risks of Forfeiture applied shall vest and become distributable to the Participant.
- (a) The Restricted Stock awarded to the Participant may not be encumbered, sold, assigned, transferred, pledged, hypothecated or otherwise disposed of other than by will or the laws of descent and distribution and shall be subject to a risk of forfeiture during the Restricted Period, beginning on the Date of Grant and ending on _____. No such sale, assignment, transfer, exchange, pledge, hypothecation or encumbrance, whether made or created by voluntary act of the Participant or of any agent of the Participant or by operation of law, shall be recognized by, or be binding upon or shall in any manner affect the rights of, the Company or any agent or any custodian holding certificates for such Restricted Stock during the Restricted Period.
 - (b) Except as otherwise provided in the Agreement, if the services of the Participant to the Company shall be terminated during the Restricted Period for any reason, the Participant shall immediately forfeit to the Company all Restricted Stock, without any consideration paid to the Participant, and, thereafter, the Participant shall have no further rights with respect to such Restricted Shares.
4. **Lapse of Risks of Forfeiture.**
- (a) Except as otherwise provided in the Agreement, the Risks of Forfeiture will lapse and the Participant’s rights will vest with respect to the Restricted Stock (as adjusted in accordance with Section 2) and any Dividend Rights with respect to such Restricted Stock, on the first day following the end of the Restricted Period, provided the Participant shall have been continuously employed by the Company from the Date of Grant through the date of such lapse.

- (b) Notwithstanding any other provision of this Agreement, if the Participant's employment with the Company terminates at least twelve (12) months after the Date of Grant but before the end of the Restricted Period by reason of (i) death, (ii) becoming Disabled (within the meaning of Code Section 22(e)(3)), or (iii) the Participant's early or normal retirement (with the Company's approval) under the provisions of any qualified retirement plan maintained by the Company, then the Risks of Forfeiture will lapse and the Participant's right to Restricted Stock (as adjusted pursuant to Section 2 and this Section) and any Dividend Rights with respect to such Restricted Stock shall immediately vest. The number of shares of Restricted Stock to which the Participant may become entitled pursuant to this Section 4(b), shall equal the number of shares of Restricted Stock granted hereunder, as adjusted pursuant to Section 2, multiplied by a fraction, the numerator of which is the number of days in the Restricted Period during which the Participant was employed by the Company and the denominator of which is the total number of days in the Restricted Period, rounded up or down to the whole number of shares.
5. **Issuance of Stock Certificates.** As soon as practicable after the expiration or lapsing of the Restricted Period, the Company will issue to the Participant a certificate (without legend) evidencing the number of shares that the Participant is entitled to receive under Section 2, or, if applicable, Section 4 (less any shares withheld pursuant to Section 5.1 of the Plan) and with respect to which the Risks of Forfeiture have lapsed.
6. **Amendments.** Any amendment to the Plan shall be deemed to be an amendment to this Agreement to the extent that the amendment is applicable hereto; provided, however, that no amendment shall adversely affect the rights of the Participant under this Agreement without the Participant's consent.
7. **Severability.** In the event that one or more of the provisions of this Agreement shall be invalidated for any reason by a court of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions hereof, and the remaining provisions hereto shall continue to be valid and fully enforceable.
8. **Relation to Plan.** This Agreement is subject to the terms and conditions of the Plan. In the event of any inconsistent provisions between this Agreement and the Plan, the Plan shall govern.
9. **Successors and Assigns.** The provisions of this Agreement shall inure to the benefit of, and be binding upon, the successors, administrators, heirs, legal representatives and assigns of the Participant, and the successors and assigns of the Company.
10. **Governing Law.** The interpretation, performance, and enforcement of this Agreement shall be governed by the laws of the State of Illinois, without giving effect to the principles of conflict of laws.

11. **Section 83(b) Tax Election.** The Participant understands that he or she may elect to be taxed at the time the Restricted Stock is acquired rather than when such stock ceases to be subject to forfeiture restrictions by filing an election under Code Section 83(b) with the Internal Revenue Service within thirty (30) days after the Date of Grant. The Participant understands that the failure to make this filing within the thirty-day period will result in the recognition of ordinary income by the Participant as the forfeiture restrictions on the Restricted Stock lapses measured by the value of the Restricted Stock at that time. The Participant agrees that he or she is relying on his or her own tax advisors and is not relying on the Company with respect to any election that he or she may make under Code Section 83(b).

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the day first written above.

STEPAN COMPANY

By: _____

F. Quinn Stepan, Jr.
President & Chief Executive Officer

AGREED AND ACCEPTED:

By: _____
Participant