

Edgar Filing: STEPHAN CO - Form 10QSB/A

STEPHAN CO  
Form 10QSB/A  
January 15, 2008

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-QSB/A

Quarterly Report Under Section 13 or 15(d) of The Securities Exchange Act  
of 1934

For the quarterly period ended: March 31, 2007

Transition Report Under Section 13 or 15(d) of the Exchange Act

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 1-4436

THE STEPHAN CO.  
(Exact Name of Small Business Issuer as Specified in its Charter)

Florida	59-0676812
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

1850 West McNab Road, Fort Lauderdale, Florida	33309
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone Number, including Area Code: (954) 971-0600

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

Approximate number of shares of Common Stock outstanding  
as of April 30, 2007:

4,389,805

The Stephan Co. and Subsidiaries  
March 31, 2007

EXPLANATORY NOTE: This report is being filed to restate previously reported operating results and financial position resulting from the unauthorized actions of a former manager that are more fully described in Note 2 of the financial statements and in Management's Discussion and Analysis or Plan of Operation. Our report on Form 10-QSB for the quarter ended March 31, 2007, filed on May 21, 2007, reflected overstated revenue, net income and net income per share for the quarter ended March 31, 2007, of approximately \$262,000, \$47,000 and \$0.01,

## Edgar Filing: STEPHAN CO - Form 10QSB/A

respectively. This report on Form 10-QSB/A reflects the corrected results of operations for the first quarter of 2007. Our report on Form 10-QSB for the quarter ended March 31, 2007 that was filed on May 21, 2007 should no longer be relied upon.

### INDEX

	Page
	----
PART I. FINANCIAL INFORMATION	
ITEM 1. Financial Statements	
Unaudited Condensed Consolidated Balance Sheets as of March 31, 2007 and December 31, 2006	3
Unaudited Condensed Consolidated Statements of Operations for the three months ended March 31, 2007 and 2006	5
Unaudited Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2007 and 2006	6
Notes to Unaudited Condensed Consolidated Financial Statements	7
ITEM 2. Management's Discussion and Analysis or Plan of Operation	11
ITEM 3. Controls and Procedures	13
PART II. OTHER INFORMATION	
ITEM 1. Legal Proceedings	14
ITEM 6. Exhibits	14
SIGNATURES	15

The Stephan Co. and Subsidiaries  
March 31, 2007

#### CAUTIONARY STATEMENT FOR PURPOSES OF THE SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This quarterly report contains certain "forward-looking" statements. The Stephan Co. ("Stephan" or the "Company") desires to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 and is including this statement for the express purpose of availing itself of the protections of such safe harbor with respect to all such forward-looking statements. Such forward-looking statements involve risks, uncertainties and other factors which may cause the actual results, condition (financial or otherwise), performance, trends or achievements of the Company and its subsidiaries to be materially different from any results, condition, performance, trends or achievements projected, anticipated or implied by such forward-looking statements.

Words such as "projects," "believe," "anticipates," "estimate," "plans," "expect," "intends," and similar words and expressions are intended to identify

## Edgar Filing: STEPHAN CO - Form 10QSB/A

forward-looking statements and are based on our current expectations, assumptions, and estimates about us and our industry. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. Although we believe that such forward-looking statements are reasonable, we cannot assure you that such expectations will prove to be correct.

Our actual results could differ materially from those anticipated in such forward-looking statements as a result of several factors, risks and uncertainties. These factors, risks and uncertainties include, without limitation, our ability to satisfactorily address any material weaknesses in our financial controls; general economic and business conditions; competition; the relative success of our operating initiatives; our development and operating costs; our advertising and promotional efforts; brand awareness for our product offerings; the existence or absence of adverse publicity; acceptance of any new product offerings; changing trends in customer tastes; the success of any multi-branding efforts; changes in our business strategy or development plans; the quality of our management team; costs and expenses incurred by us in pursuing strategic alternatives; the availability, terms and deployment of capital; the business abilities and judgment of our personnel; the availability of qualified personnel; our labor and employee benefit costs; the availability and cost of raw materials and supplies; changes in or newly-adopted accounting principles; changes in, or our failure to comply with, applicable laws and regulations; changes in our product mix and associated gross profit margins; as well as management's response to these factors, and other factors that may be more fully described in the Company's literature, press releases and publicly-filed documents with the Securities and Exchange Commission. You are urged to carefully review and consider these disclosures, which describe certain factors that affect our business.

We do not undertake, subject to applicable law, any obligation to publicly release the results of any revisions, which may be made to any forward-looking statements to reflect events or circumstances occurring after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. Therefore, we caution each reader of this report to carefully consider the specific factors and qualifications discussed herein with respect to such forward-looking statements, as such factors and qualifications could affect our ability to achieve our objectives and may cause actual results to differ materially from those projected, anticipated or implied herein.

### PART I. FINANCIAL INFORMATION

#### Item 1. Financial Statements

##### The Stephan Co. and Subsidiaries Unaudited Condensed Consolidated Balance Sheets

	March 31, 2007	December 31, 2006
	-----	-----
	(restated)	
Assets		
CURRENT ASSETS		
Cash and cash equivalents	\$ 7,666,815	\$ 7,064,332
Restricted cash	1,110,000	1,110,000
Accounts receivable, net	1,678,388	1,716,733
Inventories	5,163,756	4,792,357
Prepaid expenses and		

Edgar Filing: STEPHAN CO - Form 10QSB/A

other current assets	159,162	335,429
	-----	-----
TOTAL CURRENT ASSETS	15,778,121	15,018,851
Restricted cash	836,071	1,206,392
Property, plant and equipment, net	1,540,905	1,573,560
Deferred income taxes	844,615	864,471
Goodwill, net	2,602,802	2,602,802
Trademarks, net	3,069,507	3,069,507
Deferred acquisition costs, net	59,655	76,161
Other assets, net	2,391,959	2,354,295
	-----	-----
TOTAL ASSETS	\$27,123,635	\$26,766,039
	=====	=====

See notes to unaudited condensed consolidated financial statements.

3

	March 31, 2007	December 31, 2006
	-----	-----
	(restated)	
Liabilities and Stockholders' Equity		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 1,110,000	\$ 1,110,000
Accounts payable and accrued expenses	2,859,053	2,215,449
	-----	-----
TOTAL CURRENT LIABILITIES	3,969,053	3,325,449
Long-term debt	832,500	1,110,000
	-----	-----
TOTAL LIABILITIES	4,801,553	4,435,449
	-----	-----
Commitments And Contingencies		
STOCKHOLDERS' EQUITY		
Common stock, \$.01 par value	43,898	43,898
Additional paid-in capital	17,668,352	17,646,069
Retained earnings	4,609,832	4,640,623
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	22,322,082	22,330,590
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$27,123,635	\$26,766,039
	=====	=====

See notes to unaudited condensed consolidated financial statements.

4

The Stephan Co. and Subsidiaries  
Unaudited Condensed Consolidated Statements of Operations

Three Months Ended March 31,  
-----

Edgar Filing: STEPHAN CO - Form 10QSB/A

	2007	2006
	-----	-----
	(restated)	
Revenue	\$4,946,952	\$5,608,897
Cost Of Goods Sold	2,858,076	3,378,582
	-----	-----
Gross Profit	2,088,876	2,230,315
Selling, General And Administrative Expenses	2,075,452	2,098,334
	-----	-----
Operating Profit	13,424	131,981
Other Income (Expense)		
Interest income	90,554	43,463
Interest expense on long-term debt	(7,203)	(11,796)
	-----	-----
Income Before Income Taxes	96,775	163,648
Income Tax Expense	39,770	66,592
	-----	-----
Net Income	\$ 57,005	\$ 97,056
	=====	=====
Net Income Per Share:		
Basic	\$ .01	\$ .02
Diluted	\$ .01	\$ .02
Dividends Per Share:	\$ .02	\$ .02

See notes to unaudited condensed consolidated financial statements.

5

The Stephan Co. and Subsidiaries  
Unaudited Condensed Consolidated Statements of Cash Flows

	Three Months Ended March 31,	
	2007	2006
	-----	-----
	(restated)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 57,005	\$ 97,056
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation	34,045	37,454
Stock-based compensation	22,283	--
Amortization	16,506	16,506
Deferred income taxes	19,856	30,448
Changes in operating assets and liabilities:		
Accounts receivable	38,345	(419,302)
Inventories	(371,399)	37,137
Prepaid expenses and other current assets	176,267	133,889
Change in other assets	(37,664)	27,747
Accounts payable and accrued expenses	643,604	559,385
	-----	-----
Net cash flows provided by operating activities	598,848	520,320

Edgar Filing: STEPHAN CO - Form 10QSB/A

CASH FLOWS FROM INVESTING ACTIVITIES:	-----	-----
Reduction in restricted cash	370,321	185,470
Purchase of property, plant and equipment	(1,390)	(8,716)
	-----	-----
Net cash flows provided by investing activities	368,931	176,754
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of long-term debt	(277,500)	(277,500)
Dividends paid	(87,796)	(87,796)
	-----	-----
Net cash flows used in financing activities	(365,296)	(365,296)
	-----	-----
INCREASE IN CASH AND CASH EQUIVALENTS	602,483	331,778
Cash And Cash Equivalents, Beginning Of Period	7,064,332	5,602,762
	-----	-----
Cash And Cash Equivalents, End Of Period	\$7,666,815	\$5,934,540
	=====	=====
Supplemental Disclosures of Cash Flow Information:		
Interest paid	\$ 7,990	\$ 11,798
	=====	=====
Income taxes paid	\$ 21,515	\$ --
	=====	=====

See notes to unaudited condensed consolidated financial statements.

The Stephan Co. and Subsidiaries  
Notes To Unaudited Condensed Consolidated Financial Statements  
Quarters Ended March 31, 2007 and 2006

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES

NATURE OF OPERATIONS: The Stephan Co. (the "Company") is engaged principally in the manufacture, sale and distribution of hair and personal care grooming products throughout the United States. We have allocated substantially all of our business into three segments: professional hair care products, retail personal care products and manufacturing/other.

BASIS OF PRESENTATION: In our opinion, all adjustments (consisting only of normal accruals) necessary for a fair presentation of the Company's financial position and results of operations are reflected in these unaudited interim condensed consolidated financial statements. Certain reclassifications of prior year amounts have been made to effect comparability with current year classifications.

The results of operations for the three-month period ended March 31, 2007 are not necessarily indicative of the results to be achieved for the year ending December 31, 2007. The December 31, 2006 condensed consolidated balance sheet was derived from the audited consolidated financial statements, but does

## Edgar Filing: STEPHAN CO - Form 10QSB/A

not include all disclosures required by generally accepted accounting principles in the United States of America. These interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes in our Annual Report on Form 10-K for the year ended December 31, 2006, previously filed with the Securities and Exchange Commission.

**USE OF ESTIMATES:** The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

**CASH AND CASH EQUIVALENTS:** Cash and cash equivalents include cash, CDs, money market investments and short-term municipal bonds having maturities of 90 days or less when acquired. The Company maintains cash deposits at certain financial institutions in amounts in excess of the federally insured limit.

**REVENUE RECOGNITION:** We recognize revenue upon shipment.

**CLASSIFICATION OF CERTAIN COSTS AND EXPENSES:** In Cost of Goods Sold, we include raw materials, packaging, labor and overhead related to manufacturing, shipping and warehousing our products.

7

**INVENTORIES:** Inventories are stated at the lower of cost (determined on a first-in, first-out basis) or market:

	March 31, 2007 -----	December 31, 2006 ----
Raw materials	\$ 1,423,855	\$1,457,575
Packaging and components	2,196,541	2,138,017
Work-in-process	503,919	605,848
Finished goods	3,361,155	2,872,305
	-----	-----
	7,485,470	7,073,745
Less: Amount included in other assets	(2,321,714)	(2,281,388)
	-----	-----
	\$ 5,163,756	\$4,792,357
	=====	=====

Raw materials include chemicals and fragrances used in the production process. Packaging and components include cartons, inner sleeves, boxes, bottles, containers, jars, caps, pumps and similar items. Finished goods are comprised of manufactured and purchased "wet" goods and purchased "hard" goods including hair dryers, electric clippers, lather machines, scissors and salon accessories.

Packaging, components and finished goods that are not anticipated to be used within one year are categorized as other assets. We reduce the value of inventory, included in other assets, to provide for the cost, including the estimated costs of disposal, of slow moving goods that may ultimately become unusable or obsolete.

## Edgar Filing: STEPHAN CO - Form 10QSB/A

**BASIC AND DILUTED NET INCOME PER SHARE:** Basic net income per share was computed by dividing net income by the weighted average shares of common stock outstanding (4,389,805 shares). Diluted net income per share was computed by dividing net income by the weighted average shares of common stock outstanding increased by shares assumed to be outstanding after the exercise of certain stock options.

The inclusion of dilutive stock options in the calculation of diluted net income per share was not significant for the three-month periods ended March 31, 2007 and 2006. We have approximately 400,000 stock options outstanding, of which approximately 150,000 are "in the money" and therefore used in the calculation of diluted net income per share.

**STOCK-BASED COMPENSATION:** As a result of adopting FAS 123R on January 1, 2006, we incurred compensation expense related to stock options of \$22,000 and \$-0- for the three-month periods ended March 31, 2007 and 2006, respectively. The impact on basic and diluted net income per share was approximately \$.01 and \$.00 for the quarters ended March 31, 2007 and 2006, respectively.

**NEW FINANCIAL ACCOUNTING STANDARDS:** In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"), which establishes a fair value option under which entities can elect to report certain financial assets and liabilities at fair value, with changes in fair value recognized in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact, if any, that SFAS 159 will have on our financial statements.

8

In September 2006, the Securities and Exchange Commission staff published Staff Accounting Bulletin ("SAB") No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB No. 108 addresses the effect on current year financial statements of prior year uncorrected errors. SAB No. 108 was effective for fiscal years ended after November 15, 2006. The adoption of SAB No. 108 by us in the fourth quarter of 2006 did not have a material impact on our consolidated financial statements.

In July 2006 the FASB issued FASB Interpretation No. 48, ("FIN 48") "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109". FIN 48 requires that we recognize in our financial statements the impact of a tax position taken or expected to be taken in a tax return, provided that such position is more likely than not of being sustained on audit. FIN 48 is effective for fiscal years beginning after December 15, 2006. We do not anticipate that FIN 48 will have an adverse effect on our financial statements.

### NOTE 2: RESTATEMENT OF A PRIOR PERIOD

The unaudited consolidated condensed financial statements have been restated to correct an error resulting from the unauthorized actions of a former manager that are more fully described in Management's Discussion and Analysis or Plan of Operation. Our report on Form 10-QSB for the quarter ended March 31, 2007, filed on May 21, 2007, reflected overstated revenue, net income and net income per share for the quarter ended March 31, 2007, of approximately \$262,000, \$47,000 and \$0.01, respectively. The following table presents the effect of changes in the unaudited condensed consolidated financial statements caused by the restatement:



	As Reported	As Restated for Correction of Error
	Three Months ended March 31, 2007	
	-----	
Statement of Operations		
Revenue	\$5,196,864	\$4,946,952
Cost of Goods Sold	\$3,042,920	\$2,858,076
Gross Profit	\$2,153,944	\$2,088,876
Operating Profit	\$ 105,922	\$ 13,424
Income Before Income Taxes	\$ 174,342	\$ 96,775
Income Tax Expense	\$ 70,796	\$ 39,770
Net Income	\$ 103,546	\$ 57,005
Statement of Cash Flows		
Net income	\$ 103,546	\$ 57,005
Deferred income taxes	\$ 50,883	\$ 19,856
Accounts receivable	\$ (229,894)	\$ 38,345
Inventories	\$ (186,555)	\$ (371,399)
At March 31, 2007		
-----		
Balance Sheet		
Accounts receivable, net	\$1,940,800	\$1,678,388
Inventories	\$4,978,912	\$5,163,756
Deferred income taxes	\$ 813,588	\$ 844,615
Retained earnings	\$4,656,373	\$4,609,832

## NOTE 3: COMMITMENTS AND CONTINGENCIES

We are involved in litigation matters arising in the ordinary course of business. It is our opinion that none of these matters, at March 31, 2007, would likely, if adversely determined, have a material adverse effect on our financial position, results of operations or cash flows. Additionally, there has been no material change in the status of any pending litigation since our last filing of Form 10-K with the Securities and Exchange Commission for the year ended December 31, 2006.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

## Adjustments Related to Previously Issued Financial Statements for Interim Periods of 2007

We recently discovered, with the aid of our system of internal controls, that a manager at our Midwest subsidiary had caused overstated results to be included in our previously reported revenue, net income and net income per share to the extent of \$504,000, \$124,000, and \$.02 per common share, respectively, for the six months ended June 30, 2007. Cash was unaffected. The actions of the former manager were unauthorized and unilateral and resulted in the aforementioned

## Edgar Filing: STEPHAN CO - Form 10QSB/A

overstatement of revenue and earnings. We do not consider the actions of the former manager to be indicative of a material weakness in our system of internal controls, but we are reviewing our control systems at this subsidiary for any weaknesses or deficiencies. Any needed strengthening of our Internal Controls over Financial Reporting will be implemented before December 31, 2007.

We are herein amending our report filed on Form 10-QSB for the first quarter of 2007, and plan to amend our previously filed Form 10-QSB for the second quarter of 2007, as follows:

Quarter Ended March 31, 2007	As Filed -----	As Restated -----
Revenue	\$ 5,209,364	\$4,946,952
Net income	103,546	57,005
Net income per share	\$ .02	\$ .01
Quarter Ended June 30, 2007	As Filed -----	As Restated -----
Revenue	\$ 5,106,714	\$4,864,668
Net income	163,750	128,751
Net income per share	\$ .04	\$ .03
Six Months Ended June 30, 2007	As Filed -----	As Restated -----
Revenue	\$10,316,078	\$9,811,620
Net income	267,296	185,756
Net income per share	\$ .06	\$ .04

The "As Restated" amounts above have been included in this report on Form 10-QSB/A for the first quarter of 2007. Revenue "As Filed" for the quarter ended March 31, 2007 includes a subsequent reclassification from other income of \$12,500.

Comparison of the Three-Month Periods ended March 31, 2007 and March 31, 2006:

Our revenue was \$4.9 million for the three months ended March 31, 2007, a decrease of 11.8% from the comparable period in 2006 principally due to a shortfall in our professional segment. Revenue in our professional segment, consisting principally of lower margin hard goods, accounted for approximately 72.0% of our total revenue for the three-month period ended March 31, 2007 and declined 16.0% from the comparable period in the prior year. Revenue in the retail segment, principally comprised of chain stores and mass merchandisers, accounted for approximately 20.4% of our total revenue for this three-month period and approximated the revenue for the comparable 2006 period. Revenue for the remaining product segment was 5.7% above that for the comparable period in 2006. It was not practicable to determine profit or loss by segment; however, the Company is planning to present such information in our Annual Report on Form 10-KSB for the year ending December 31, 2007.

11

### Revenue by Segment (\$ in thousands)

	Three Months 2007 -----	Three Months 2006 -----	% Increase (Decrease) -----
Professional	\$3,571	\$4,252	(16.0%)
Retail	1,008	1,009	--

## Edgar Filing: STEPHAN CO - Form 10QSB/A

Manufacturing/Other	368	348	5.7%
	-----	-----	
Total	\$4,947	\$5,609	(11.8%)

Revenue in our largest category, professional hard goods, was below that in the first quarter of 2006. We believe that several factors contributed to this shortfall: 1) a decrease in the number of distributors resulting from industry consolidation, 2) increased competitive pressures, 3) lower beauty school enrollments and 4) general economic conditions.

Our operating profit in the first quarter of 2007 was \$13,000 compared to \$132,000 in the first quarter of 2006. Lower SG&A expenses and higher gross margins helped to offset the effect of the revenue decline. SG&A expenses in the first quarter of 2006 included legal costs of \$19,000 classified in previous reports as a component of interest expense.

Higher interest income of \$47,000 in the first quarter of 2007 compared to the first quarter of 2006 lessened the decline in income before income taxes.

Net income for the first quarter of 2007 declined \$40,000 due principally to 1) the unfavorable effect on operating profit of the revenue shortfall from the first quarter of 2007 compared to the comparable period in 2006, 2) the favorable effect of higher interest income in the first quarter of 2007 compared to that in the first quarter of 2006, and 3) lower income taxes.

### LIQUIDITY & CAPITAL RESOURCES

We had \$7.7 million cash and cash equivalents at March 31, 2007, up from \$7.1 million at December 31, 2006. Additionally, we had cash of \$1.9 million pledged as security for a bank loan of a like amount. Other than this bank loan, which has been fully funded by restricted cash, we have no long-term debt.

During the three-month period ended March 31, 2007, we generated cash flows from operations sufficient to fund our operating, capital and dividend requirements. Most of our revenue and cash flow comes from our Professional market segment. This segment markets non-manufactured barber and beauty supplies to distributors, barbershops, beauty schools and salons. We do not anticipate the need for additional long-term debt or capital contributions at this time. We do not have any off-balance sheet financing or similar arrangements.

We paid our first dividend of 2007 on March 30, 2007 in the amount of \$.02 per share of common stock. We have paid dividends every year since mid-1995.

### NEW FINANCIAL ACCOUNTING STANDARDS

See Note 1 to the Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 for a discussion of new financial accounting standards.

### DISCUSSION OF CRITICAL ACCOUNTING POLICIES

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results would differ significantly from those estimates if different assumptions were used or unexpected events transpire. Please see Item 7 in our Annual Report on Form 10-K for the year ended December 31, 2006 filed with the Securities and Exchange Commission.

ITEM 3. CONTROLS AND PROCEDURES

(a) EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES: As of the end of the period covered by this quarterly report, we, including our principal executive and financial officers, performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that a material weakness existed in our internal controls over financial reporting and, consequently, that our disclosure controls and procedures were not effective in timely alerting them as to material information relating to our Company and our subsidiaries that is required to be included in this quarterly report.

The material weakness in our internal controls over financial reporting as of March 31, 2007 related to the fact that as a small public company, we, currently, have an insufficient number of personnel with clearly delineated and fully documented responsibilities and with the appropriate level of accounting expertise. We also have insufficient documented procedures to identify and prepare a conclusion on matters involving material accounting issues and to independently review conclusions as to the application of generally accepted accounting principles. The lack of a sufficient number of accounting personnel is not considered appropriate for an internal control structure designed for external reporting purposes.

The principal factors management considered in determining whether a material weakness existed in this regard was based upon management's evaluation discussed above and advice from our independent registered public accounting firm. As a result, management has determined that a material weakness in the effectiveness of the Company's internal controls over financial reporting existed as of March 31, 2007.

During the second quarter of 2007 we retained a financial consultant who acted as our controller and also analyzed procedures and evaluated internal controls and reported his findings and recommendations for change to the Audit Committee of the Board. To the extent practicable we will implement these recommended changes by the end of 2007. The consultant remains with us as our chief financial officer.

(b) CHANGES IN INTERNAL CONTROLS: No change in the Company's internal control over financial reporting occurred during the second quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. However, the Audit Committee and we recognize that current staffing levels will have to be enhanced and/or arrangements will have to be made with other accounting firms to act in a consulting capacity in an effort to satisfy our reporting obligations and over-all standards of disclosure controls and procedures.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

There has been no significant change in the status of litigation since the issuance of the Annual Report on Form 10-K for the year ended December 31, 2006.

Edgar Filing: STEPHAN CO - Form 10QSB/A

ITEM 6. Exhibits

31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.

31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.

32.1 Certification by the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification by the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

14

SIGNATURES

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

THE STEPHAN CO.

/s/ Frank F. Ferola

-----  
Frank F. Ferola  
President and Chief Executive Officer  
January 10, 2008

/s/ Robert C. Spindler

-----  
Robert C. Spindler  
Principal Financial and  
Accounting Officer  
January 10, 2008

15