

STEPHAN CO  
Form 10-Q  
August 18, 2009

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2009

or

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

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

Commission File Number 1-4436

THE STEPHAN CO.  
(Exact name of registrant as specified in its charter)

Florida  
(State or other jurisdiction of incorporation or organization)

59-0676812  
(IRS 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

Former name, former address and former fiscal year, if changed since last report: not applicable.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 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 large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES  NO

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Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

4,252,675 shares of common stock, \$0.01 par value, as of August 14, 2009

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THE STEPHAN CO. AND SUBSIDIARIES  
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## PART I – FINANCIAL INFORMATION

### Item 1. Financial Statements

Certain statements in this Quarterly Report on Form 10-Q ("Form 10-Q") under "Item 1. Financial Statements" and "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations," constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Reform Act"). Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, condition (financial or otherwise), performance or achievements to be materially different from any future results, performance, condition or achievements expressed 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 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 weakness 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; 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.

The Stephan Co.

Condensed Consolidated Balance Sheets

At June 30, 2009 and December 31, 2008

(in thousands, except share and per share amounts)

	2009	Audited 2008
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 8,202	\$ 7,967
Accounts receivable, net	1,083	976
Current inventories	5,240	5,162
Prepaid expenses and other current assets	223	248
<b>TOTAL CURRENT ASSETS</b>	<b>14,748</b>	<b>14,353</b>
Other assets, including non-current inventories, net	3,100	3,106
Property, plant and equipment, net	1,333	1,383
Goodwill and other intangible assets, net	6,762	6,744
<b>TOTAL ASSETS</b>	<b>\$ 25,943</b>	<b>\$ 25,586</b>
<b>CURRENT LIABILITIES</b>		
Current portion of long-term debt	\$ 139	\$ 136
Accounts payable and accrued expenses	2,094	1,922
<b>TOTAL CURRENT LIABILITIES</b>	<b>2,233</b>	<b>2,058</b>
Long-term debt, less current portion	287	326
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, \$.01 par value; 1,000,000 shares authorized; none issued		
Common stock, \$.01 par value; 25,000,000 shares authorized; 4,389,611 shares issued at June 30, 2009 and December 31, 2008	44	44
Additional paid-in capital	17,873	17,833
Retained earnings	5,817	5,606
Treasury stock, 136,936 and 123,048 shares, at cost	(311)	(281)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>23,423</b>	<b>23,202</b>
<b>TOTAL LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>	<b>\$ 25,943</b>	<b>\$ 25,586</b>

See Notes to Condensed Consolidated Financial Statements.



The Stephan Co.  
Condensed Consolidated Statements of Operations  
Three and Six Months Ended June 30, 2009 and 2008  
(in thousands, except per share data)

	Three Months		Six Months	
	2009	2008	2009	2008
Revenue	\$ 4,420	\$ 4,289	\$ 9,002	\$ 8,709
Cost of revenue	2,421	2,133	4,849	4,432
Gross profit	1,999	2,156	4,153	4,277
Selling, general and administrative expenses	1,778	1,995	3,757	3,936
Operating income	221	161	396	341
Interest income	5	67	12	157
Interest expense	(1)	(2)	(1)	(6)
Income before income taxes	225	226	407	492
Provision for income taxes	13	90	26	196
NET INCOME	\$ 212	\$ 136	\$ 381	\$ 296
Basic income per share	\$ 0.05	\$ 0.03	\$ 0.09	\$ 0.07
Diluted income per share	\$ 0.05	\$ 0.03	\$ 0.09	\$ 0.07
Dividends per share	\$ 0.02	\$ 0.02	\$ 0.04	\$ 0.04
Weighted average common shares outstanding	4,253	4,389	4,256	4,389

See Notes to Condensed Consolidated Financial Statements.

The Stephan Co.

Condensed Consolidated Statements of Cash Flows

Six Months Ended June 30, 2009 and 2008

(in thousands)

	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>NET INCOME</b>	<b>\$ 381</b>	<b>\$ 296</b>
Adjustments to reconcile net income to net cash flows provided by (used in) operating activities:		
Depreciation	59	58
Stock option compensation	40	40
Deferred income taxes	-	174
Changes in operating assets & liabilities		
(Increase) decrease in accounts receivable	(107)	364
Increase in current inventories	(78)	(1,334)
Decrease in prepaid expenses and other current assets	25	104
Decrease in other assets, including non-current inventories	6	2
Increase (decrease) in accounts payable and accrued expenses	172	(109)
Total adjustments to net income	117	(701)
<b>NET CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>498</b>	<b>(405)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Adjustment of intangibles related to Bowman acquisition	(18)	
Purchase of property, plant and equipment	(9)	(16)
<b>NET CASH FLOWS (USED IN) INVESTING ACTIVITIES</b>	<b>(27)</b>	<b>(16)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Change in restricted cash	-	555
Repayment of long-term debt	(36)	(555)
Dividends	(170)	(176)
Purchases of treasury stock		