STEPHAN CO
Form 10QSB
May 21, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-QSB

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

For the Quarterly Period Ended: March 31, 2007

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 X NO

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

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

4,389,805

THE STEPHAN CO. AND SUBSIDIARIES
QUARTERLY REPORT PURSUANT TO SECTION 13

OF THE SECURITIES EXCHANGE ACT OF 1934
MARCH 31, 2007

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THE STEPHAN CO. AND SUBSIDIARIES
QUARTERLY REPORT PURSUANT TO SECTION 13
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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 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

ASSETS

	March 31, 2007	December 31, 2006
CURRENT ASSETS		
Cash and cash equivalents	$ 7,666,815	$ 7,064,332
Restricted cash	1,110,000	1,110,000

Accounts receivable, net	1,940,800	1,716,733
Inventories	4,978,912	4,792,357
Prepaid expenses and other current assets	159,162	335,429
TOTAL CURRENT ASSETS	15,855,689	15,018,851
RESTRICTED CASH	836,071	1,206,392
PROPERTY, PLANT AND EQUIPMENT, net	1,540,905	1,573,560
DEFERRED INCOME TAXES	813,588	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	$ 27,170,176	$ 26,766,039

See notes to unaudited condensed consolidated financial statements

THE STEPHAN CO. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

	March 31, 2007	December 31, 2006
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 2,859,053	$ 2,215,449
Current portion of long-term debt	1,110,000	1,110,000
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 (NOTE 3)		
STOCKHOLDERS' EQUITY		
Common stock, $.01 par value	43,898	43,898
Additional paid-in capital	17,668,352	17,646,069
Retained earnings	4,656,373	4,640,623
TOTAL STOCKHOLDERS' EQUITY	22,368,623	22,330,590
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 27,170,176	$ 26,766,039

See notes to unaudited condensed consolidated financial statements

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THE STEPHAN CO. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31,	
	2007	2006
NET SALES	$ 5,196,864	$ 5,596,397
COST OF GOODS SOLD	3,042,920	3,378,582
GROSS PROFIT	2,153,944	2,217,815
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,048,022	2,078,332
OPERATING INCOME	105,922	139,483
OTHER INCOME(EXPENSE)		
Interest income	90,554	43,463
Interest expense	(34,634)	(31,798)
Royalty income	12,500	12,500
INCOME BEFORE INCOME TAXES	174,342	163,648
INCOME TAX EXPENSE	70,796	66,592

NET INCOME	$ 103,546	$ 97,056
BASIC AND DILUTED EARNINGS PER SHARE:	$ .02	$ .02
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	4,399,758	4,391,747

See notes to unaudited condensed consolidated financial statements

THE STEPHAN CO. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 103,546	$ 97,056
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation	34,045	37,454
Stock option compensation	22,283	-
Amortization of intangible assets	16,506	16,506
Deferred income taxes	50,883	30,448
Provision for doubtful accounts	5,827	27,177
Changes in operating assets and liabilities:		
Accounts receivable	(229,894)	(446,479)
Inventories	(186,555)	37,137
Income taxes payable/receivable	-	22,893
Prepaid expenses and other current assets	176,267	110,996
Other assets	(37,664)	27,747
Accounts payable and accrued expenses	643,604	559,385

Total adjustments	495,302	423,264
Net cash flows provided by operating activities	598,848	520,320

See notes to unaudited condensed consolidated financial statements

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THE STEPHAN CO. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31,	
	2007	2006
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change 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. The Company has allocated substantially all of its business into three segments, which include professional hair care products and distribution, retail personal care products and manufacturing.

BASIS OF PRESENTATION: In the opinion of management, 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 financial statements.

The results of operations for the three-month period ended March 31, 2007 is 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 not include all disclosures required by accounting principles generally accepted in the United States of America ("generally accepted accounting principles"). These interim financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes appearing in the Company's 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 management 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 could differ from those estimates.

CASH AND CASH EQUIVALENTS: Cash and cash equivalents include cash, money market investment accounts 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. Cash and cash equivalents held in interest-bearing accounts as of March 31, 2007 and December 31, 2006 were approximately $ 6,964,000 and $6,242,000, respectively. At March 31, 2007 and December 31, 2006, the Company excluded restricted cash in the amount of approximately $1,946,000 and $2,316,000, respectively, from the above as they are pledged as collateral for a bank loan.

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 (continued)

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

	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 progress	503,919	605,848
Finished goods	3,176,311	2,872,305
	7,300,626	7,073,745
Less: Amount included in other assets	(2,321,714)	(2,281,388)
	$ 4,978,912	$ 4,792,357

Raw materials include surfactants, chemicals and fragrances used in the production process. Packaging materials include cartons, inner sleeves and boxes used in the actual product, as well as outer boxes and cartons used for shipping purposes. Components are the actual bottles or containers (plastic or glass), jars, caps, pumps and similar materials that become part of the finished product. Finished goods also include hair dryers, electric clippers, lather machines, scissors and salon furniture.

Included in other assets is inventory not anticipated to be utilized within one year and is comprised primarily of packaging, components and finished goods. The Company reduces the carrying value of inventory to provide for these slow moving goods including the estimated costs of disposal of inventory that may ultimately become unusable or obsolete.

BASIC AND DILUTED EARNINGS PER SHARE: Basic and diluted earnings per share are computed by dividing net income by the weighted average number of shares of common stock outstanding. The weighted average number of shares outstanding was 4,399,758 for the three months ended March 31, 2007 and 4,391,747 for the three months ended March 31, 2006. For the three months ended March 31, 2007 and 2006, the Company had 396,178 and 391,116 outstanding stock options, respectively, a significant portion of which were anti-dilutive. The inclusion of dilutive stock options in the calculation of earnings per share did not have a material impact on earnings per share for the three months ended March 31, 2007 and 2006.

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 (continued)

STOCK-BASED COMPENSATION: Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised), "Share-Based Payment" ("FAS 123R"), and chose to utilize the modified prospective transition method. Under this method, compensation costs recognized at March 31, 2007 relate to the estimated fair value at the grant date of 50,000 stock options granted subsequent to January 1, 2007 in accordance with FAS 123R. Prior to the adoption of FAS 123R the Company accounted for stock options in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees," and recognized no compensation expense in net income for stock options granted and has elected the disclosure only provisions of FAS 123. In accordance with the provisions of FAS 123R, options granted prior to January 1, 2006, have not been restated to reflect the adoption of FAS 123R. The required services for awards prior to January 1, 2006 had been rendered prior to December 31, 2005.

As a result of adopting FAS 123R on January 1, 2006, the Company's net income for the period ended March 31, 2007 was lower because the Company recognized approximately $22,000 of compensation expense (included in Selling, General and Administrative Expenses) in the period for the stock options granted. The impact on basic and diluted earnings per share for the quarter ended March 31, 2007 was not material. For the quarter ended March 31, 2006, compensation expense of approximately $21,000 was recorded for options granted in the period, as indicated above. The Company has used the Black-Scholes option pricing model to estimate the fair value of stock options using the following assumptions as at March 31, 2007:

Life expectancy	10 years
Risk-free interest rate	4.48%
Expected volatility	62.00%
Dividends per share	2.21%
Weighted average fair value at grant date	$2.06

The above assumptions are based on a number of factors as follows: (i) expected volatility was determined using the historical volatility of the Company's stock price, (ii) the expected term of the options is based on the period of time that the options granted are expected to be outstanding, and (iii) the risk free rate is the U.S. Treasury rate effective at the time of grant for the duration of the options granted. Compensation cost is recognized on a straight-line basis over the vesting period.

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 (continued)

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. Management is currently evaluating the impact SFAS 159 will have on the Company's financial statements.

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 quantifying the financial statement effects of misstatements, specifically, how the effects of prior year uncorrected errors must be considered in quantifying misstatements in the current year financial statements. SAB No. 108 is effective for fiscal years ending after November 15, 2006. The adoption of SAB No. 108 by our Company 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 any adverse effect on our financial statements.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3", effective for accounting changes and corrections of errors made in fiscal year 2006 and beyond. In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140", effective for events occurring after the first fiscal year that begins after September 15, 2006. In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140", also effective for the first fiscal year that begins after September 15, 2006. In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements", effective for financial statements issued for fiscal years beginning after November 15, 2007. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands required disclosures in connection therewith. Also in September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Defined Benefit Pension and Other Retirement Plans", an amendment of FASB Statements No. 87, 88, 106, and 132(R). The effect of these statements on the Company's consolidated financial statements will be determined based upon the nature and significance of future events, if any, that would be subject to these statements.

NOTE 2: SEGMENT INFORMATION

The Company has identified three reportable operating segments based upon how its management evaluates its business. These segments are Professional Hair Care Products and Distribution ("Professional"), Retail Personal Care Products ("Retail") and "Manufacturing". The Professional segment has a customer base consisting generally of distributors that purchase the Company's hair products and beauty and barber supplies for sale to salons and barbershops. The customer base for the Retail segment consists of mass merchandisers, chain drug stores and supermarkets that sell products to end-users. The Manufacturing segment manufactures products for different subsidiaries of the Company and manufactures private label brands for customers.

The Company conducts operations principally in the United States and sales to international customers are not material to its consolidated net sales. Income Before Income Taxes as shown below reflects a reasonable allocation of corporate overhead expenses to all segments. The following tables, in thousands, summarize Net Sales and Income Before Income Taxes by reportable segment:

	NET SALES		INCOME BEFORE INCOME TAXES	
	Three Months Ended March 31,		Three Months Ended March 31,	
	2007	2006	2007	2006
Professional	$ 3,833	$ 4,252	$ 340	$ 345
Retail	1,008	1,009	312	47
Manufacturing	1,119	1,241	(328)	(185)
Total	5,960	6,502	324	207
Intercompany Manufacturing	(763)	(906)	(150)	(43)
Consolidated	$ 5,197	$ 5,596	$ 174	$ 164

NOTE 3: COMMITMENTS AND CONTINGENCIES

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

THE STEPHAN CO. AND SUBSIDIARIES
QUARTERLY REPORT PURSUANT TO SECTION 13
OF THE SECURITIES EXCHANGE ACT OF 1934
MARCH 31, 2007 AND 2006

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

For the three months ended March 31, 2007, net sales were $5,197,000 compared to $5,596,000 for the three months ended March 31, 2006, a decrease of $399,000. Gross profit for the three months ended March 31, 2007 was $2,154,000, compared to gross profit of $2,218,000 achieved for the corresponding three-month period in 2006. The decrease in net sales was primarily due to a decline in Professional Hard goods sales, which accounted for approximately 70% of the decline, as well as a decrease in net sales of retail goods. The gross profit margin increased, from 39.6% for the quarter ended March 31, 2006 to 41.4% for the corresponding period in 2007, due largely to a change in the sales mix.

Net income was $104,000 for the three months ended March 31, 2007 compared to net income of $97,000 for the comparable three months ended March 31, 2006. Basic and diluted earnings per share were $.02 for each of the three month period ended March 31, 2007 and 2006.

Selling, general and administrative ("SG&A") expenses for the three months ended March 31, 2007 decreased $30,000 when compared to the corresponding three-month period of 2006. The Company experienced declines in payroll and related expenses but these were offset by increases in professional fees, insurance and office expenses when compared to the quarter ended March 31, 2006.

Interest expense for the three months ended March 31, 2007 increased slightly when compared to the corresponding three-month period in 2006 as a result of increased interest accruals on the Trevor Sorbie debt arising from an adverse arbitration decision in 2004. The Company is vigorously defending this legal action and while management believes we may ultimately prevail and/or settle for an amount substantially below the amount already accrued, management continues to accrue interest on the entire obligation because, due to the limited discovery taken and the complexities of the issues involved, the Company cannot predict the outcome of the litigation.

Interest income for the three months ended March 31, 2007 increased approximately $47,000, when compared to the corresponding three-month period in 2006, as a result of having more cash on hand for investment purposes and an overall increase in the interest rates on invested funds.

LIQUIDITY & CAPITAL RESOURCES

Cash and cash equivalents increased $603,000 to $7,667,000 as of March

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

31, 2007 from $7,064,000 as of December 31, 2006. Total cash of $9,613,000 includes $1,946,000 of cash invested in a restricted money market account pledged as collateral for a bank loan. The Company has continued to secure its outstanding long-term debt with Wachovia Bank with restricted cash. Total current assets at March 31, 2007 were $15,856,000 compared to $15,019,000 at December 31, 2006. Working capital increased $193,000 from December 31, 2006, and was approximately $11,887,000 at March 31, 2007.

The Company does not have any off-balance sheet financing or similar arrangements.

NEW FINANCIAL ACCOUNTING STANDARDS

See Note 1 to the 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 management 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 the Company's 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, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was performed under the supervision and with the participation of our management, including our principal executive officer and principal financial officer. 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 our disclosure controls and procedures were not effective, as of the end of the period covered by this quarterly report in timely alerting them as to material information relating to our Company (including our consolidated subsidiaries) required to be included in this quarterly

ITEM 3. CONTROLS AND PROCEDURES (continued)

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 have an insufficient number of personnel with clearly delineated and fully documented responsibilities and with the appropriate level of accounting expertise and we 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.

(b) CHANGES IN INTERNAL CONTROLS: No change in the Company's internal control over financial reporting occurred during the Company's first fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. However, management of the Company, as well as the Audit Committee, recognizes that current staffing levels will have to be enhanced and/or institute arrangements 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.

THE STEPHAN CO. AND SUBSIDIARIES
QUARTERLY REPORT PURSUANT TO SECTION 13
OF THE SECURITIES EXCHANGE ACT OF 1934
MARCH 31, 2007 AND 2006

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 3 to the Financial Statements included in Part I, Item 1 for a discussion of 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.

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.

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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
May 21, 2007

/s/ David A. Spiegel

David A. Spiegel
Principal Financial and
Accounting Officer
May 21, 2007