

STEPHAN CO
Form PRER14A
April 13, 2004
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SCHEDULE 14A

(RULE 14A-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE
SECURITIES EXCHANGE ACT OF 1934

Filed by the registrant

Filed by a party other than the registrant

Check the appropriate box:

Preliminary proxy statement.

Confidential, for use of the Commission only (as permitted by Rule 14a-6(e) (2)).

Definitive proxy statement.

Definitive additional materials.

Soliciting material pursuant to Rule 14a-12

The Stephan Co.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of filing fee (check the appropriate box):

- .. No fee required.
- .. Fee computed on table below per Exchange Act Rules 14a-6(I)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

The Stephan Co. common stock, par value \$0.01 per share

(2) Aggregate number of securities to which transaction applies:

3,259,971 shares of common stock, par value \$0.01 per share.

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

The filing fee was determined based upon the product of 3,259,971 shares of common stock and the merger consideration of \$4.60 per share. In accordance with Rule 0-11 under the Securities Exchange Act of 1934, as amended, the filing fee was determined by multiplying the amount calculated pursuant to the preceding sentence by 1/50 of one percent.

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(4) Proposed maximum aggregate value of transaction:

\$14,995,867

(5) Total fee paid:

\$2,999.17

x Fee paid previously with preliminary materials.

x Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:

\$2,933.97

(2) Form, Schedule or Registration Statement No.:

Schedule 14A

(3) Filing Party:

The Stephan Co.

(4) Date Filed:

November 24, 2003

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THE STEPHAN CO.

1850 West McNab Road

Fort Lauderdale, FL 33309

To Our Stockholders:

You are cordially invited to attend the annual meeting of the stockholders of The Stephan Co. (Stephan) to be held on _____, 2004, at _____ p.m., local time, at our corporate offices at 1850 West McNab Road, Fort Lauderdale, Florida 33309. A notice of the annual meeting, a proxy statement and a proxy card are enclosed. Please read the enclosed proxy statement carefully as it sets forth details of the proposed merger and other important information relating to the merger, and the election of directors and ratification of our independent auditors in the event the proposed merger is not approved, and the annual meeting.

At the annual meeting, we will ask you to adopt and approve a Second Amended and Restated Agreement and Plan of Merger, dated as of March 24, 2004, pursuant to which Gunhill Enterprises, Inc. (Gunhill) will merge into Stephan. Gunhill Enterprises, Inc., formed solely for the purpose of effecting the merger, is a wholly-owned subsidiary of Eastchester Enterprises, Inc. (Eastchester). Eastchester is owned by Frank F. Ferola, Thomas M. D Ambrosio, Shouky A. Shaheen and John DePinto. Frank F. Ferola also serves as Chairman and Chief Executive Officer of Stephan. The acquisition group, which includes Eastchester, Gunhill, Frank F. Ferola, Thomas M. D Ambrosio, Shouky A. Shaheen and John DePinto, owns 26.1% of Stephan s outstanding common stock.

Upon the adoption and approval of the merger agreement and the completion of the merger, each outstanding share of common stock, except for shares held by the members of the acquisition group, will be canceled and converted into the right to receive \$4.60 in cash. After the merger, Stephan will be privately held and wholly-owned by the acquisition group. A copy of the merger agreement is attached to the proxy statement as Appendix A and we urge you to read it in its entirety.

A special committee of our board of directors, comprised solely of directors who are not officers or employees of our company, was formed to consider and evaluate the proposed merger. For additional detail regarding the independence of the members of the special committee, see page 16, Special Factors Background of the Merger. The special committee has unanimously recommended to our board of directors that the merger agreement be approved. In connection with its evaluation of the merger, the special committee engaged SunTrust Robinson Humphrey Capital Markets (Robinson Humphrey) as its financial advisor to render an opinion to the special committee as to the fairness of the consideration to be received in the proposed merger by the unaffiliated common stockholders of Stephan. Robinson Humphrey has rendered its opinion dated as of March 15, 2004, to the effect that, as of that date and based upon and subject to the limitations and qualifications set forth in the opinion, the consideration to be received in the merger by the unaffiliated shareholders is fair to those shareholders from a financial point of view. The written opinion of Robinson Humphrey is attached to the proxy statement as Appendix B, and you should read it carefully.

Based on the unanimous recommendation of the special committee, our board has unanimously approved and declared the advisability of the merger agreement, and has unanimously determined that the merger consideration described above is fair to our unaffiliated shareholders and that the merger is advisable and in the best interests of Stephan and its unaffiliated shareholders. We unanimously recommend that you vote FOR the merger agreement and the merger.

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As also discussed in the proxy statement, if the proposed merger is not approved, you will be asked to elect a board of directors to serve until the next annual meeting of shareholders or until their successors are elected and qualified and to approve the appointment of our independent auditors.

We unanimously recommend adoption of all other matters to be submitted to the shareholders at the annual meeting.

Whether or not you plan to attend the annual meeting, please promptly complete, date, sign and return the enclosed proxy card in the enclosed prepaid envelope. Your failure to either return a properly executed proxy card or vote at the annual meeting will have the same effect as a vote against the merger.

If the merger is consummated, you will receive instructions for surrendering your Stephan stock certificates and a letter of transmittal to be used for this purpose. You should not submit your stock certificates for exchange until you have received the instructions and the letter of transmittal.

Sincerely,

Frank F. Ferola

Chairman of the Board and

Chief Executive Officer

This proxy statement is dated _____, 2004 and was first mailed to Stephan stockholders on or about _____, 2004.

THIS TRANSACTION HAS NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE FAIRNESS OR MERITS OF THIS TRANSACTION OR UPON THE ACCURACY OR ADEQUACY OF THE INFORMATION CONTAINED IN THIS DOCUMENT OR ANY DOCUMENT ATTACHED HERETO. ANY REPRESENTATIONS TO THE CONTRARY ARE UNLAWFUL.

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THE STEPHAN CO.

1850 West McNab Road

Fort Lauderdale, FL 33309

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON _____, 2004

To Our Stockholders:

An annual meeting of the stockholders of The Stephan Co. will be held on _____, 2004, at _____, local time, at the corporate offices of Stephan at 1850 West McNab Road, Fort Lauderdale, Florida 33309, for the following purposes:

1. To consider and vote upon a proposal to adopt and approve the Second Amended and Restated Agreement and Plan of Merger, dated as of March 24, 2004, by and among Eastchester Enterprises, Inc., a Florida corporation, Gunhill Enterprises, Inc., a Florida corporation and a wholly-owned subsidiary of Eastchester, and Stephan. Under the terms of the merger agreement, upon the adoption and approval of the merger agreement by holders of Stephan common stock and the completion of the merger: (i) Gunhill Enterprises, Inc. will merge into Stephan, with Stephan continuing as the surviving corporation and (ii) each outstanding share of Stephan common stock will be canceled and converted into the right to receive \$4.60 in cash, except for shares of Stephan common stock held by Eastchester, Frank F. Ferola (our Chairman and Chief Executive Officer), Thomas M. D Ambrosio, Shouky A. Shaheen and John DePinto. A copy of the merger agreement is attached to the proxy statement as Appendix A;
2. In the event the proposed merger is not approved, to consider and vote upon a slate of nominees to serve as our directors until the next annual meeting of shareholders or until their successors are elected and qualified;
3. In the event the proposed merger is not approved, to approve the appointment of our independent auditors; and
4. To vote to adjourn the meeting, if necessary.

We have specified _____, 2004, at the close of business, as the record date for the purpose of determining the Stephan common stockholders who are entitled to receive notice of and to vote at the annual meeting. A list of the Stephan common stockholders entitled to vote at the annual meeting will be available for examination by any stockholder at the annual meeting. For ten days prior to the annual meeting, this stockholder list will also be available for inspection by stockholders at our corporate offices at 1850 West McNab Road, Fort Lauderdale, Florida 33309, during ordinary business hours.

For a more complete statement regarding the matters to be acted upon at the annual meeting, please read the proxy statement and the other materials concerning Stephan and the merger, which are mailed with this notice.

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The adoption and approval of the merger agreement requires the affirmative vote of a majority of the outstanding shares of Stephan common stock held by stockholders of record on the record date. The acquisition group owned, as of the record date, an aggregate of 1,150,606 shares of Stephan common stock, constituting approximately 26.1% of the outstanding shares of Stephan common stock entitled to vote at the annual meeting. The acquisition group has indicated to our board of directors its intention to vote in favor of adopting and approving the merger agreement.

Acting upon the unanimous recommendation of a special committee of our board of directors, comprised solely of directors who are not officers or employees of Stephan, our board of directors has unanimously determined that the consideration to be received in the merger by the unaffiliated shareholders of Stephan is, from a financial point of view, fair to such stockholders. Our board of directors unanimously recommends that you vote FOR adoption and approval of the merger agreement.

Your vote is important. Whether or not you plan to attend the annual meeting and regardless of the number of shares of Stephan common stock that you own, please complete, sign and date the accompanying proxy card and return it in the enclosed prepaid envelope. Failure to return a properly executed proxy card or vote at the annual meeting will have the same effect as a vote against the merger and the merger agreement.

Your proxy is revocable and will not affect your right to vote in person if you decide to attend the annual meeting. Simply attending the annual meeting, however, will not revoke your proxy. For an explanation of the procedures for revoking your proxy, see page 12 setting forth the sections of the proxy statement captioned Annual Meeting - Voting and Revocation and Annual Meeting - Solicitation of Proxies. Returning your proxy card without indicating how you want to vote will have the same effect as a vote FOR the adoption and approval of the merger agreement.

The merger is described in the enclosed proxy statement, which you are urged to read carefully. In addition, you may obtain information about Stephan from documents that Stephan has filed with the Securities and Exchange Commission, including the Schedule 13E-3 transaction statement filed in connection with the merger.

By Order of the Board of Directors,

Frank F. Ferola

Chairman of the Board and

Chief Executive Officer

Ft. Lauderdale, Florida

_____, 2004

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QUESTIONS AND ANSWERS ABOUT THE MERGER

Q: WHAT ARE WE VOTING ON?

A: Whether to adopt and approve a Second Amended and Restated Agreement and Plan of Merger (the merger agreement) by and among Eastchester, Gunhill Enterprises, Inc. (a newly formed, wholly-owned subsidiary of Eastchester) and Stephan, pursuant to which Gunhill Enterprises, Inc. will merge into Stephan, with Stephan continuing as the surviving corporation.

Q: WHAT ARE THE RELATIONSHIPS AMONG THE PARTIES TO THE MERGER AGREEMENT?

A: Eastchester, the proposed acquiror of Stephan, formed Gunhill Enterprises, Inc. as its wholly-owned subsidiary solely for the purpose of effecting the merger. Eastchester is owned by Frank F. Ferola, Thomas M. D Ambrosio, Shouky A. Shaheen and John DePinto, all of whom are directors of Stephan. Frank F. Ferola is also a director and executive officer of Eastchester and Gunhill Enterprises, Inc., and the Chairman and Chief Executive Officer of Stephan. Eastchester, Gunhill and Messrs. Ferola, D Ambrosio, Shaheen and DePinto, together own approximately 26.1% of the outstanding shares of Stephan common stock. In this proxy statement, the term acquisition group refers to Eastchester, Gunhill and Messrs. Ferola, D Ambrosio, Shaheen and DePinto.

Q: ARE THERE CONDITIONS TO THE COMPLETION OF THE MERGER?

A: Yes. Before completion of the transactions contemplated by the merger agreement, Stephan and Eastchester must fulfill or waive several closing conditions, including adoption and approval of the merger agreement by the holders of Stephan common stock, the accuracy of representations and warranties made by the parties, the absence of certain material adverse effects on Stephan and other customary closing conditions. If these conditions are not satisfied or waived, the merger will not be completed even if the holders of Stephan common stock vote to adopt and approve the merger agreement and the merger.

Q: WHAT VOTE IS REQUIRED TO ADOPT AND APPROVE THE MERGER AGREEMENT AND THE MERGER?

A: The affirmative vote of the holders of a majority of all outstanding shares of Stephan common stock is required to adopt and approve the merger agreement and the merger. The acquisition group has indicated to our board of directors its intention to vote in favor of the approval of the merger agreement and the merger. A vote of the majority of the unaffiliated shareholders is not required under our Articles of Incorporation or Florida law. Our board did not believe that a vote of the majority of the unaffiliated shareholders was necessary to ensure that the merger was fair to the unaffiliated shareholders based upon the fact that the acquisition group owns only 26.1% of the outstanding shares of Stephan common stock and, accordingly, an additional 24% vote is required to approve the merger. In addition, our board believes that sufficient procedural safeguards (described in detail in this proxy statement) are in place to ensure the fairness of the merger to the unaffiliated shareholders. See page 35 (Stephan's Position as to the Fairness of the Merger).

Q: WHAT WILL BE THE EFFECT OF THE MERGER?

A: After the merger, Stephan will no longer be a publicly held corporation, you will no longer own any Stephan stock, and the acquisition group will own 100% of Stephan's stock.

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Q: IF THE MERGER IS COMPLETED, WHAT WILL I RECEIVE FOR MY STEPHAN COMMON STOCK?

A: If the merger is completed, each of your shares of Stephan common stock will be automatically canceled and converted into the right to receive \$4.60 in cash, without interest or any other payment thereon. See page 46 (The Merger - Payment of Merger Consideration and Surrender of Stock Certificates).

Q: IF THE MERGER IS COMPLETED, WHAT WILL THE ACQUISITION GROUP RECEIVE FOR ITS STEPHAN COMMON STOCK?

A: If the merger is completed, each share of Stephan common stock held by the acquisition group will remain outstanding and the acquisition group will not receive any consideration for its shares of Stephan common stock.

Q: WHAT DOES OUR BOARD OF DIRECTORS RECOMMEND REGARDING THE MERGER AGREEMENT?

A: After receiving the unanimous recommendation of a special committee of our board of directors, consisting solely of directors who are not officers or employees of Stephan, our board of directors unanimously determined that the terms of the merger are advisable, fair to, and in the best interests of, Stephan's unaffiliated shareholders. Our board of directors unanimously recommends that you vote FOR the adoption and approval of the merger and the merger agreement.

Q: WHY DID OUR BOARD OF DIRECTORS FORM THE SPECIAL COMMITTEE?

A: Our board of directors formed the special committee because of the interests Messrs. Ferola, D'Ambrósio, Shaheen and DePinto have in both Stephan and Eastchester. Each is a director of Stephan. In addition, Mr. Ferola is the Chairman and Chief Executive Officer of Stephan, the proposed target, as well as a director, senior executive officer and an owner of Eastchester, the proposed acquiror. The two members of the special committee (Curtis Carlson and Leonard Genovese) are directors of Stephan who are neither officers nor employees of Stephan or Eastchester and are not affiliates of Eastchester. See page 43 (Conflicts of Interest).

Q: WHAT SHOULD I DO NOW? HOW DO I VOTE?

A: After you read and consider carefully the information contained in this proxy statement, please fill out, sign and date your proxy card and mail your signed proxy card in the enclosed return envelope as soon as possible so that your shares may be represented at the annual meeting. Failure to return your proxy or vote in person at the meeting will have the same effect as a vote against the adoption and approval of the merger and the merger agreement.

Q: IF MY SHARES ARE HELD IN STREET NAME BY MY BROKER, WILL MY BROKER VOTE MY SHARES FOR ME?

A: Yes, but only if you provide instructions to your broker on how to vote. You should fill out, sign, date

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and return the proxy card and otherwise follow the directions provided by your broker regarding how to instruct your broker to vote your shares. See page 12 (Annual Meeting - Voting and Revocation of Proxies).

Q: CAN I CHANGE MY VOTE OR REVOKE MY PROXY AFTER I HAVE MAILED MY SIGNED PROXY CARD?

A: Yes, you can change your vote at any time before your proxy is voted at the annual meeting. You can do this in one of three ways. First, you can send a written notice stating that you would like to revoke your proxy. Second, you can complete and submit a new proxy card. If you choose either of these methods, we must receive your notice of revocation or your new proxy card before the vote is taken at the annual meeting. Third, you can attend the annual meeting and vote in person. Simply attending the meeting, however, will not revoke your proxy; you must vote at the meeting. If you have instructed a broker to vote your shares, you must follow directions received from your broker to change your vote. See page 12 (Annual Meeting - Voting and Revocation of Proxies).

Q: AM I ENTITLED TO APPRAISAL RIGHTS?

A: No. Because our common stock was listed on the American Stock Exchange on the record date, you do not have appraisal rights under Florida law.

Q: SHOULD I SEND IN MY STOCK CERTIFICATES NOW?

A: No. If the merger agreement is adopted and approved, then shortly after the merger is completed, you will receive a letter of transmittal with instructions informing you how to send in your stock certificates to Eastchester's payment agent. You should use the letter of transmittal to exchange your stock certificates for the merger consideration to which you are entitled as a result of the merger. **YOU SHOULD NOT SEND ANY STOCK CERTIFICATES WITH YOUR PROXY CARDS.** You should follow the procedures described in page 46 (The Merger - Payment of Merger Consideration and Surrender of Stock Certificates).

Q: WHEN DO YOU EXPECT THE MERGER TO BE COMPLETED?

A: We are working towards completing the merger as soon as possible. For the merger to occur, it must be adopted and approved by our stockholders and certain other customary closing conditions must be fulfilled or waived (to the extent permitted by law). If this and other conditions are either fulfilled or waived (to the extent permitted by law), we expect to complete the merger on or about August 2, 2004, which in any event, will be no more than five business days after these conditions have been fulfilled or waived (to the extent permitted by law).

Q: WHAT ARE THE TAX CONSEQUENCES OF THE MERGER TO ME?

A: The receipt of cash in exchange for your stock surrendered in the merger will constitute a taxable transaction for U.S. federal income tax purposes and under most state, local, foreign and other tax laws. In general, a stockholder who surrenders common stock pursuant to the merger will recognize a gain or loss equal to the difference, if any, between \$4.60 per share and such stockholder's adjusted tax basis in such share. We urge you to consult your own tax advisor regarding the specific tax consequences that may result from your individual circumstances as well as the foreign, state and local

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tax consequences of the disposition of shares in the merger. To review the tax considerations of the merger in greater detail see page 42 (Special Factors - Material U.S. Federal Income Tax Consequences of the Merger to Our Stockholders).

Q: WHO CAN HELP ANSWER MY OTHER QUESTIONS?

A: If you have more questions about the merger, you should contact David A. Spiegel, Chief Financial Officer:

The Stephan Co.

1850 West McNab Road

Fort Lauderdale, Florida 33309

Telephone: 954-971-0600

Facsimile: 954-974-2109

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SUMMARY TERM SHEET

This term sheet highlights all material information from this proxy statement. Nonetheless, to understand the merger fully, you should read carefully this entire proxy statement, the appendices and the additional documents referred to in this proxy statement. In this proxy statement, the terms Stephan, we, us and our refer to The Stephan Co. In this proxy statement, the term Eastchester refers to Eastchester Enterprises, Inc., a Gunhill refers to Gunhill Enterprises, Inc. In this proxy statement, the terms the acquisition group and Eastchester and its affiliates refer to Eastchester, Gunhill, Frank F. Ferola, Thomas M. D Ambrosio, Shouky A. Shaheen, John DePinto and any entity that is controlled by Eastchester.

THE ANNUAL MEETING DATE, TIME AND PLACE (PAGE 10)

Proposals to be Considered at the Annual Meeting

The annual meeting of common stockholders of The Stephan Co. will be held on _____, 2004 at _____ p.m. local time, at our corporate offices at 1850 West McNab Road, Fort Lauderdale, Florida 33309. At the annual meeting, you are being asked to adopt and approve the merger agreement pursuant to which Gunhill, a wholly-owned Eastchester subsidiary formed solely for the purpose of effecting the merger, will be merged into Stephan. Stephan will continue as the surviving corporation. For additional information about the merger, see pages 46-49 (The Merger). For additional information about the merger agreement see pages 49-57 (The Merger Agreement).

In the event the proposed merger is not approved, you will be asked to consider and vote upon a slate of nominees to serve as our directors until the next annual meeting of shareholders or until their successors are elected and qualified. In addition, in the event the proposed merger is not approved, you will be asked to approve the appointment of our independent auditors.

Record Date for Voting

Only holders of record of shares of common stock of Stephan at the close of business on _____, 2004 are entitled to notice of and to vote at the annual meeting. On that date, there were _____ holders of record of common stock, and 4,410,577 shares of our common stock outstanding. Each share of common stock entitles the holder to cast one vote at the annual meeting. For additional information about the record date for voting see page 11 (Annual Meeting Voting Rights; Vote Required for Adoption and Approval).

Procedures Relating to Your Vote at the Annual Meeting

The presence, in person or by proxy, of the holders of a majority of all outstanding shares of Stephan common stock as of the record date is necessary to constitute a quorum at the annual meeting. Abstentions and broker non-votes are counted for the purpose of establishing a quorum.

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Adoption of the merger agreement requires the affirmative vote of the holders of a majority of all outstanding shares of Stephan common stock. Abstentions and broker non-votes will have the effect of a vote AGAINST the adoption and approval of the merger agreement. With respect to the election of directors and ratification of the appointment of our independent auditors, a plurality of votes is required. Abstentions and votes withheld by brokers in the absence of instructions from street name holders will be counted for purposes of determining

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whether a quorum is present and will have no effect on the election of directors or approval of the appointment of our independent auditors.

You should complete, date and sign your proxy card and mail it in the enclosed return envelope as soon as possible so that your shares may be represented at the annual meeting, even if you plan to attend the meeting in person. Unless contrary instructions are indicated on your proxy, all of your shares represented by valid proxies will be voted FOR the adoption and approval of the merger agreement.

If your shares are held in street name by your broker, your broker will vote your shares, but only if you provide instructions on how to vote. You should follow the procedures provided by your broker regarding the voting of your shares.

You can revoke your proxy and change your vote in any of the following ways:

deliver to our secretary at our corporate offices at 1850 West McNab Road, Fort Lauderdale, Florida 33309, on or before the business day prior to the annual meeting, a later dated, signed proxy card or a written revocation of your proxy;

deliver a later dated, signed proxy card or a written revocation to us at the annual meeting;

attend the annual meeting and vote in person. Your attendance at the meeting will not, by itself, revoke your proxy; you must vote in person at the meeting; or

if you have instructed a broker to vote your shares, you must follow the directions received from your broker to change those instructions. For additional information regarding the procedure for delivering your proxy see pages 12-13 (Annual Meeting - Voting and Revocation of Proxies and Annual Meeting - Solicitation of Proxies).

APPRAISAL RIGHTS (PAGE 11)

Pursuant to the Florida Business Corporation Act, because our shares were listed on the American Stock Exchange as of the record date, shareholders do not have appraisal rights whether they vote for or against the merger.

PURPOSES AND STRUCTURE OF THE MERGER (PAGE 40)

The principal purposes of the merger are to permit Stephan stockholders to realize a price for their shares in an amount substantially in excess of the market price at which their shares traded just prior to the initial announcement of the signing of the merger agreement (this price is 34.1% greater than the average closing price at which their shares traded for the one year period prior to the initial announcement of the signing of the merger agreement) and to permit the acquisition group to increase its ownership of Stephan from approximately 26.1% to 100%.

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The proposed transaction has been structured as a going private merger of Gunhill Enterprises, Inc. into Stephan. Stephan will be the surviving corporation in the merger and, upon completion of the merger, will be a privately held wholly-owned subsidiary of the acquisition group. The transaction has been structured as a going private transaction to permit the acquisition group to own 100% of a privately held corporation and as a

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merger in order to provide the unaffiliated shareholders of common stock with cash for all of their shares. See page 40 (Special Factors - Purposes and Structure of the Merger).

CONSIDERATION TO BE OFFERED TO OUR STOCKHOLDERS (PAGE 49)

At the effective time of the merger, each outstanding share of common stock held by our unaffiliated shareholders will be canceled and converted into the right to receive \$4.60 in cash, except for shares of common stock held by the acquisition group and any shares of common stock held in our treasury.

Each share of common stock of Gunhill Enterprises, Inc. then issued and outstanding will, by virtue of the merger and without any action on the part of Gunhill Enterprises, Inc. become one fully paid and non-assessable share of common stock of Stephan, the surviving corporation.

THE PARTIES TO THE MERGER

Eastchester

The principal activity of Eastchester Enterprises, Inc., a Florida corporation, is the acquisition, ownership and operation through its wholly-owned subsidiary, Gunhill, of the common stock of Stephan.

As of the record date, Eastchester and its affiliates own 1,150,606 shares of Stephan's outstanding common stock, which represents approximately 26.1% of Stephan's outstanding common stock. The address and telephone number of Eastchester's principal executive offices are:

Eastchester Enterprises, Inc.

1850 West McNab Road

Fort Lauderdale, FL 33309

Telephone: 954-971-0600

Gunhill Enterprises, Inc.

Gunhill Enterprises, Inc. is a Florida corporation and a wholly-owned subsidiary of Eastchester that was formed solely for the purpose of effecting the transactions contemplated by the merger and has not engaged in any business except in furtherance of this purpose. The address

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and telephone number of Gunhill Enterprises, Inc.'s principal executive offices are:

Gunhill Enterprises, Inc.

1850 West McNab Road

Fort Lauderdale, FL 33309

Telephone: 954-971-0600

Stephan

The Stephan Co., a Florida corporation, is primarily engaged in the manufacturing, selling and distribution of hair care and personal care grooming products on both the wholesale and retail level. For additional information and news concerning Stephan, please contact:

David A. Spiegel,

Chief Financial Officer,

The Stephan Co.,

1850 West McNab Road,

Fort Lauderdale,

Florida 33309,

Telephone: 954-971-0600

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Stephan's common stock is listed on the American Stock Exchange under the symbol "TSC".

Because a question could be raised with respect to the Company's compliance with the independence requirements of the American Stock Exchange listing rules, the Company decided to disclose the potential non-compliance in its Annual Report on Form 10-K for the year ended December 31, 2002. However, the Company has since had several communications with American Stock Exchange representatives in this regard and the American Stock Exchange has not disagreed with the Company's position that it is currently in compliance with these rules. Accordingly, the Company does not expect to be subject to any civil penalties in this regard. See page 16 (Special Factors - Background of the Merger).

Other Filing Persons

FRANK F. FEROLA

The principal occupation of Frank F. Ferola is (i) to serve as the Chairman of the Board of Directors and Chief Executive Officer of Stephan (since 1981) and (ii) to serve as the Chairman of the Board of Directors and the Chief Executive Officer of Eastchester, with which he has been associated since its inception in 2002. As of the record date, Frank F. Ferola along with the other members of the acquisition group own 1,150,606 shares of Stephan common stock, which represents approximately 26.1% of Stephan's outstanding common stock. Frank F. Ferola owns 50.0% of Eastchester. For additional information about Frank F. Ferola see page 39 (Conflicts of Interest - Directors, Officers and Controlling Persons - Frank F. Ferola). The business address and telephone number of Frank F. Ferola are:

1850 West McNab Road

Fort Lauderdale, FL 33309

Telephone: 954-971-0600

THOMAS M. D. AMBROSIO

The principal occupation of Thomas M. D. Ambrosio is (i) to serve as a director of Stephan (since 1981), (ii) to serve as Vice President and Treasurer of Stephan and (iii) to serve as a director of Eastchester, with which he has been associated since its inception in 2002. As of the record date, Thomas M. D. Ambrosio along with the other members of the acquisition group own 1,150,606 shares of Stephan common stock, which represents approximately 26.1% of Stephan's outstanding common stock. Thomas M. D. Ambrosio owns 17.15% of Eastchester. The business address and telephone number of Thomas M. D. Ambrosio are:

1850 West McNab Road

Fort Lauderdale, FL 33309

Telephone: 954-971-0600

SHOUKY A. SHAHEEN

The principal occupation of Shouky A. Shaheen is (i) to serve as a director of Stephan (since 1998), (ii) to serve as president of Shaheen and Co. and (ii) to serve as a director of Eastchester, with which he has been

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associated since its inception in 2002. As of the record date, Shouky A. Shaheen along with the other members of the acquisition group own 1,150,606 shares of Stephan common stock, which represents approximately 26.1% of Stephan's outstanding common stock. Shouky A. Shaheen owns 24.29% of Eastchester. The business address and telephone number of Shouky A. Shaheen are:

1850 West McNab Road

Fort Lauderdale, FL 33309

Telephone: 954-971-0600

JOHN DEPINTO

The principal occupation of John DePinto is (i) to serve as a director of Stephan (since 1981) and (ii) to serve as a director of Eastchester, with which he has been associated since its inception in 2002. As of the record date, John DePinto along with the other members of the acquisition group own 1,150,606 shares of Stephan common stock, which represents approximately 26.1% of Stephan's outstanding common stock. John DePinto owns 8.56% of Eastchester. The business address and telephone number of John DePinto are:

1850 West McNab Road

Fort Lauderdale, FL 33309

Telephone: 954-971-0600

RECOMMENDATIONS OF THE SPECIAL COMMITTEE AND OUR BOARD OF DIRECTORS (PAGE 33)

The special committee of our board of directors, consisting of two non-employee, non-officer directors of Stephan, was formed to consider and evaluate the proposed merger. Nonetheless, the special committee members have interests in the merger that are different from or in addition to the interests of Stephan stockholders generally and which may present actual, apparent or potential conflicts of interest in connection with the merger. See page 43 (Conflicts of Interest). The special committee has determined unanimously that the merger is fair from a financial point of view to our shareholders other than the acquisition group, officers, directors and affiliates of Stephan (the unaffiliated shareholders) and recommended to our board of directors that it declare the merger advisable and in the best interests of Stephan and our unaffiliated shareholders, approve the merger agreement and determine to recommend that our stockholders vote to adopt and approve the merger agreement. Our board of directors, based on the unanimous recommendation of the special committee, has unanimously determined that the merger consideration is fair to our unaffiliated shareholders, and that the merger is advisable and in the best interests of Stephan and our unaffiliated shareholders and declared that the merger agreement is advisable. Accordingly, our board of directors has approved the merger agreement and unanimously recommends that you vote **FOR** the proposal to adopt and approve the merger agreement.

For a discussion of the material factors considered by the special committee and our board of directors in reaching their conclusions and the reasons why the special committee and our board of directors determined that the merger is fair, see page 30 (Special Factors - Reasons for the Recommendations of the Special Committee and Our Board of Directors), page 35 (Special Factors - Stephan's Position as to the Fairness of the Merger) and page 40 (Special Factors - Purposes and Structure of the Merger).

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OPINION OF ROBINSON HUMPHREY (PAGES 21-30)

In connection with the merger, the special committee and our board of directors considered the opinion of the special committee's financial advisor, SunTrust Robinson Humphrey Capital Markets (Robinson Humphrey), as to the fairness of the merger consideration to the unaffiliated shareholders from a financial point of view. Robinson Humphrey delivered its opinion to the special committee on March 15, 2004, that, as of that date and based on and subject to the limitations and qualifications described in the opinion, the consideration to be received by the unaffiliated shareholders pursuant to the merger agreement is fair to such stockholders from a financial point of view. Robinson Humphrey's opinion was provided for use by the special committee and the board of directors of Stephan and does not constitute a recommendation to any Stephan common stockholder with respect to any matter relating to the proposed merger.

For a detailed discussion of the opinion and analysis of Robinson Humphrey, see pages 21-30 (Special Factors - Opinion of Robinson Humphrey).

The full text of Robinson Humphrey's written opinion is attached as Appendix B to this proxy statement. We encourage you to read Robinson Humphrey's opinion in its entirety for a description of the matters considered and limitations on the review undertaken.

STEPHAN'S POSITION AS TO THE FAIRNESS OF THE MERGER (PAGE 35)

We believe the merger and the merger consideration to be fair to our unaffiliated shareholders. In reaching this determination (based on a vote of our board of directors made on March 15, 2004) we have relied on numerous factors, including:

the total merger consideration of \$4.60 per share represents a 44.2% premium over \$3.19, the closing price of our common stock on April 30, 2003, the last full trading day prior to our initial May 1, 2003 announcement of the proposed merger; our board of directors considered the fact that the merger consideration represents a 34.1% premium to the average closing price of approximately \$3.43 per share for our common stock for the one year period prior to May 1, 2003. For additional information, see page 13 (Comparative Market Price Data);

the merger consideration to be paid in the merger agreement represents a multiple of 25.6 times our earnings per share (before cumulative effect of change in accounting principle) for the 12 month period ended December 31, 2003;

the approval of the merger by all of the members of the special committee and the fact that the members of the special committee, based on the factors described in page 30 (Special Factors - Reasons for the Recommendations of the Special Committee and Our Board of Directors), determined that the merger is fair and in the best interests of Stephan and our unaffiliated shareholders and declared that the merger agreement is advisable;

the merger agreement was extensively negotiated between the representatives of the special committee and the representatives of Eastchester; and

the members of the special committee who negotiated the transaction on behalf of our stockholders are not officers or employees of Stephan and are not affiliated with Eastchester.

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For a more detailed discussion of the material factors upon which these beliefs are based, see page 35 (Special Factors - Stephan's Position as to the Fairness of the Merger).

THE ACQUISITION GROUP'S POSITION AS TO THE FAIRNESS OF THE MERGER (PAGE 37)

The acquisition group believes the merger consideration to be fair to the Stephan unaffiliated shareholders. In reaching this determination, the acquisition group relied on numerous factors, including:

the per share price to be paid on Stephan common stock in the merger represents a 44.2% premium over the reported closing price of \$3.19 for shares of Stephan common stock on April 30, 2003, which was the last day on which shares of Stephan common stock traded prior to Stephan's initial announcement of the execution of the merger agreement;

the consideration to be paid in the merger agreement represents a multiple of 25.6 times Stephan's earnings per share (before cumulative effect of change in accounting principle) of Stephan common stock for the 12 month period ended December 31, 2003;

the acquisition group believes that Stephan is too small to continue to support the expenses of being a public company, which include the cost of counsel and independent accountants for securities law compliance, preparing, printing and mailing certain corporate reports, directors' and officers' insurance and the cost of investor relations activities.

For a detailed discussion of the material factors upon which these beliefs are based, see page 37 (Special Factors - The Acquisition Group's Position as to the Fairness of the Merger).

CONFLICTS OF INTEREST (PAGE 43)

In considering the recommendation of the special committee and our board of directors with respect to the merger and the merger agreement, you should be aware that certain directors, executive officers and controlling persons of Stephan have interests in the merger that are different from or in addition to, the interests of our stockholders generally, and which present actual, apparent or potential conflicts of interest in connection with the merger.

THE ACQUISITION GROUP (PAGE 44)

The acquisition group consists of Eastchester, Gunhill, Frank F. Ferola, Thomas M. D'Ambrosio, Shouky A. Shaheen, John DePinto and any entity that is controlled by Eastchester. Frank F. Ferola is Chairman and Chief Executive Officer of Stephan. Messrs. D'Ambrosio, Shaheen and DePinto are directors of Stephan. As of the record date, the acquisition group owned 1,150,606 shares of Stephan common stock, which represents approximately 26.1% of Stephan's outstanding common stock. Upon completion of the merger, pursuant to which Eastchester's wholly-owned subsidiary, Gunhill Enterprises, Inc., will merge into Stephan, the articles of incorporation and bylaws of Gunhill will become Stephan's articles of incorporation and bylaws, and the ownership of Stephan's common stock by the acquisition group will increase from approximately 26.1% to 100%.

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For additional information about Conflicts of Interest see page 43 (Conflicts of Interest).

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ACCOUNTING TREATMENT (PAGE 47)

The merger will be accounted for under the purchase method of accounting as prescribed by Statement of Financial Standards No. 141, Business Combinations and Emerging Issues Task Force Abstract 88-16, Basis in Leveraged Buyout Transactions. For a discussion of the accounting treatment for the merger see page 47 (The Merger - Accounting Treatment).

MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES TO OUR STOCKHOLDERS (PAGE 42)

The receipt of \$4.60 merger consideration for each outstanding share of common stock will be a taxable transaction for U.S. federal income tax purposes and under most state, local, foreign and other tax laws. For U.S. federal income tax purposes, each of our unaffiliated shareholders generally will realize taxable gain or loss as a result of the merger measured by the difference, if any, between the tax basis of each share of our common stock owned by such stockholder and \$4.60 for each share of common stock owned by such stockholder. For additional information regarding material U.S. federal income tax consequences of the merger to our stockholders, see page 42 (Special Factors - Material U.S. Federal Income Tax Consequences of the Merger to Our Stockholders).

FINANCING OF THE MERGER (PAGE 48)

The total amount of funds required to consummate the merger and to pay related fees and expenses is estimated to be approximately \$16,000,000. The acquisition group, through its direct cash resources and borrowed funds, has sufficient funds available to pay the merger consideration and pay its portion of the fees and expenses incurred in connection with the merger. For additional information about the financing of the merger see page 48 (The Merger - Financing of the Merger; Fees and Expenses of the Merger) which sets forth the terms of all financings undertaken in connection with the merger.

THE MERGER AGREEMENT (PAGES 49-57)

Generally

The merger agreement provides for Gunhill Enterprises, Inc. to merge with and into Stephan. Stephan will be the surviving corporation in the merger, and, as a result of the merger, the acquisition group will own 100% of Stephan's stock. In the merger, Gunhill Enterprises, Inc.'s articles of incorporation as in effect immediately prior to the effective time, shall be the articles of incorporation of Stephan, provided, that Gunhill Enterprises, Inc.'s articles of incorporation will be amended by the certificate of merger to read as follows: The name of the corporation is: THE STEPHAN CO. As of the completion of the merger, the bylaws of Gunhill Enterprises, Inc. will be the bylaws of Stephan.

Effective Time

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The merger will be consummated and become effective at the time a certificate of merger is filed with the Secretary of State of the State of Florida or such later time as specified in the certificate of merger.

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Takeover Proposals

Nothing contained in the merger agreement shall prohibit us from, prior to the date of the stockholder s meeting, doing any of the following:

furnishing information or entering into discussions with any person that makes an unsolicited written proposal to us with respect to a takeover proposal, which could reasonably be expected to result in a superior proposal, if the failure to take such action would be inconsistent with the board of directors and the special committee s fiduciary duties to Stephan stockholders. Prior to furnishing information to, or entering into negotiations with, such person, we will provide reasonable notice to Eastchester that we are furnishing information or negotiating with such person, and will have received from such person a fully executed confidentiality agreement;

complying with Rule 14d-9 or Rule 14e-2 under the Securities Exchange Act of 1934, as amended with regard to a tender offer or exchange offer;

failing to make or withdrawing or modifying our recommendation to the Stephan common stockholders that they adopt and approve the merger agreement; or

recommending an unsolicited, bona fide proposal with respect to a takeover proposal which could reasonably be expected to result in a superior proposal, if the failure to take such action would be inconsistent with the board of directors and the special committee s fiduciary duties to the stockholders.

If at any time prior to the consummation of the merger the special committee concludes that its failure to provide information to, or engage in discussions with, third parties who are interested in acquiring Stephan, would be inconsistent with its fiduciary duties to Stephan s unaffiliated shareholders, then the special committee may provide information to, and engage in discussions and negotiations with such interested parties. Under specified circumstances, Stephan has the right to terminate the merger agreement and to enter into an agreement with a party proposing a competing transaction which is deemed superior to the transaction proposed by the acquisition group.

Taking these actions, however, may result in payment to Eastchester of a termination fee of \$400,000 plus its reasonable expenses. See page 57 (The Merger Agreement - Fees, Expenses and Other Payments).

Conditions

The completion of the merger depends on several conditions being satisfied or waived, including, among others, the following:

the adoption and approval of the merger agreement by the affirmative vote of the holders of a majority of our outstanding shares entitled to vote thereon; since the acquisition group has agreed to vote in favor of the merger agreement, the affirmative vote of the holders of 1,054,684 shares of our outstanding common stock, in addition to the shares held by the acquisition group, is necessary to adopt and approve the merger agreement;

the absence of any legal prohibition against the merger;

the material accuracy of the representations and warranties of the parties contained in the merger agreement and the material compliance with the obligations of the parties to be performed under the merger agreement;

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a material adverse effect with respect to our operations has not occurred, and no facts or circumstances arising after March 24, 2004, have occurred which, individually or in the aggregate, could reasonably be expected to have a material adverse effect on us; and

obtaining any necessary third party consents and approvals.

Fees, Expenses and Other Payments

If the merger is consummated, all costs and expenses incurred in connection with the merger agreement are to be borne by the party which incurs those costs and expenses. We have agreed to pay Eastchester, if the merger agreement is terminated:

by either party, upon the special committee and our board of directors' determination that a takeover proposal constitutes a superior proposal and our board of directors seeks to consummate such superior proposal, then a termination fee of \$400,000 plus Eastchester's reasonable expenses; or

by either party, if on or before August 2, 2004, any regulatory authority or shareholder of Stephan initiates any legal action which as of September 15, 2004, the parties reasonably believe will result in a delay of the consummation of the merger for a period of more than 90 days thereafter, then all of Eastchester's reasonable expenses.

FORWARD-LOOKING STATEMENTS MAY PROVE INACCURATE

This proxy statement contains certain forward-looking statements. Because these forward-looking statements are being made by us in connection with a going private transaction, the safe harbor created by Section 21E of the Securities Exchange Act of 1934, as amended, does not apply to these statements. Such forward-looking statements involve risks and uncertainties and include, but are not limited to, statements regarding future events and our plans, goals and objectives. Such statements are generally accompanied by words such as intend, anticipate, believe, estimate, expect or similar terms. Stephan's actual results may differ materially from such statements. Factors that could cause or contribute to such differences include, without limitation, the following:

our plans, strategies, objectives, expectations and intentions are subject to change at any time at its discretion;

regulatory review and approvals of the merger;

adverse changes in the hair care and personal care products market including, among other things, competition with other companies; and

other risks and uncertainties indicated from time to time in Stephan's filings with the Securities and Exchange Commission.

Although Stephan believes that the assumptions underlying its forward-looking statements are reasonable, any of the assumptions could prove inaccurate and, therefore, Stephan cannot make any assurances that the results contemplated in such forward-looking statements will be realized. The inclusion of such forward-looking

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information should not be regarded as a representation by Stephan or any other person that the future events, plans or expectations contemplated by Stephan will be achieved. Furthermore, past performance is not necessarily an indicator of future performance. Except for our ongoing obligations to disclose material information as required by the federal securities laws, we undertake no obligation to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the date of this proxy statement or to reflect the occurrence of unanticipated events.

ANNUAL MEETING

This proxy statement is furnished in connection with the solicitation of proxies by our board of directors for a annual meeting of common stockholders to be held on _____, 2004 at _____ local time, at our corporate offices at 1850 West McNab Road, Fort Lauderdale, Fifth Floor, Florida 33309, or at any adjournment of the annual meeting. Shares of our common stock, par value \$0.01 per share, represented by properly executed proxies received by us will be voted at the annual meeting or any adjournment of the annual meeting in accordance with the terms of such proxies, unless revoked.

PROPOSALS TO BE CONSIDERED AT THE ANNUAL MEETING

At the annual meeting, you will consider and vote upon a proposal to adopt and approve a merger agreement, dated as of March 24, 2004, among Eastchester, Gunhill Enterprises, Inc., a wholly-owned subsidiary of Eastchester and Stephan. The merger agreement provides for the merger of Gunhill Enterprises, Inc. with and into Stephan. Upon the effective time of the merger, the separate corporate existence of Gunhill Enterprises, Inc. will cease, and Stephan will be the surviving corporation and a wholly-owned subsidiary of the acquisition group. Pursuant to the merger: each outstanding share of common stock will be canceled and converted into the right to receive \$4.60 in cash, except for shares held by the acquisition group.

In addition, in the event that the proposed merger is not approved, you will consider and vote upon a slate of nominees to serve as our directors until the next annual meeting of shareholders or until their successors are elected and qualified and to ratify the appointment of our independent auditors.

APPRAISAL RIGHTS

Pursuant to the Florida Business Corporation Act, because our shares were listed on the American Stock Exchange as of the record date, shareholders do not have appraisal rights whether they vote for or against the merger.

VOTING RIGHTS; VOTE REQUIRED FOR ADOPTION AND APPROVAL

Each outstanding share of Stephan common stock entitles its holder to one vote on all matters properly coming before the annual meeting. Any stockholder entitled to vote may vote either in person or by properly executed proxy. A majority of the outstanding shares of common stock entitled to vote, represented in person or by proxy, will constitute a quorum at the annual meeting. Abstentions and broker non-votes (i.e., shares

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held by brokers in street name, voting on certain matters due to discretionary authority or instructions from the owner, but not voting on other matters due to lack of authority to vote on such matters without instructions from the owner) are counted for the purpose of establishing a quorum at the annual meeting. The merger agreement must be adopted and approved by the holders of at least a majority of the outstanding shares of Stephan common stock. Abstentions and broker non-votes will have the effect of a vote AGAINST adoption

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and approval of the merger agreement. Votes will be tabulated by our transfer agent, Registrar & Transfer Company.

With respect to the election of directors and approval of the appointment of our independent auditors, a plurality of votes is required. Abstentions and votes withheld by brokers in the absence of instructions from street name holders will be counted for purposes of determining whether a quorum is present and will have no effect on the election of directors or approval of the appointment of our independent auditors.

On _____, 2004, the record date for the annual meeting, there were _____ holders of record of Stephan common stock, and 4,410,577 shares of Stephan common stock outstanding, 1,150,606 of which were owned by the acquisition group, representing approximately 26.1% of the total number of shares entitled to vote at the annual meeting. The acquisition group has indicated that it intends to vote all of the Stephan common stock owned by it FOR the adoption and approval of the merger agreement and the transactions contemplated by the merger agreement.

The adoption and approval of the merger by a majority of the holders of outstanding shares of Stephan common stock who are unaffiliated with the acquisition group is not required.

VOTING AND REVOCATION OF PROXIES

All shares of Stephan common stock represented by properly executed proxies received prior to or at the annual meeting and not revoked will be voted in accordance with the instructions indicated in such proxies. If no instructions are indicated, such proxies will be voted for the proposal to adopt and approve the merger agreement and to adjourn the annual meeting, if necessary.

If you have given a proxy, you may revoke it by:

delivering to David A. Spiegel, our Chief Financial Officer, at our executive offices at 1850 West McNab Road, Fort Lauderdale, FL 33309, on or before the business day prior to the annual meeting, a later dated, signed proxy card or a written revocation of such proxy;

delivering a later dated, signed proxy card or a written revocation to us at the annual meeting;

attending the annual meeting and voting in person; or

if you have instructed a broker to vote your shares, following the directions received from your broker to change those instructions. Revocation of the proxy will not affect any vote previously taken. Attendance at the annual meeting will not in itself constitute the revocation of a proxy; to revoke you must vote in person at the meeting. Our board of directors is not currently aware of any business to be brought before the annual meeting other than that described in this proxy statement. No proxies marked AGAINST the proposal to adopt and approve the merger agreement will be voted in favor of a motion to adjourn or postpone the annual meeting for the purpose of soliciting further proxies in favor of adoption and approval of the merger agreement.

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SOLICITATION OF PROXIES

We will bear the expenses in connection with the solicitation of proxies. Upon request, we will reimburse brokers, dealers and banks, or their nominees, for reasonable expenses incurred in forwarding copies of the proxy material to the beneficial owners of shares of Stephan common stock which such persons hold of record. Solicitation of proxies will be made principally by mail. Proxies may also be solicited in person, or by telephone, facsimile or e-mail, by our officers and regular employees. Such persons will receive no additional compensation for these services, but will be reimbursed for any transaction expenses incurred by them in connection with these services.

We are mailing this proxy material to Stephan stockholders on or about _____, 2004.

COMPARATIVE MARKET PRICE DATA

The table below sets forth the high and low closing prices for the Stephan common stock (ticker symbol TSC), on the American Stock Exchange in each quarter of fiscal 2001 through March 31, 2004. The high and low closing prices for the Stephan common stock represent prices between broker-dealers, and do not include retail mark-ups or mark-downs or any commission to the broker-dealer and may not represent actual transactions.

COMMON STOCK	HIGH	LOW
Fiscal 2004		
First Quarter	\$ 4.85	\$ 4.21
Fiscal 2003		
First Quarter	\$ 3.61	\$ 3.10
Second Quarter	3.79	3.00
Third Quarter	4.25	3.71
Fourth Quarter	4.47	4.00
Fiscal 2002		
First Quarter	\$ 3.24	\$ 2.71
Second Quarter	3.83	3.00
Third Quarter	3.66	3.00
Fourth Quarter	3.64	3.27
Fiscal 2001		
First Quarter	\$ 3.00	\$ 2.94
Second Quarter	3.50	2.88
Third Quarter	3.25	2.75
Fourth Quarter	3.15	2.65

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The average closing price of Stephan common stock for the one year period through April 30, 2003 was approximately \$3.43 per share. On April 30, 2003, the last day on which shares of Stephan common stock were traded prior to Stephan's initial announcement of the execution of the merger agreement, the closing price of the Stephan common stock was \$3.19. On _____, 2004, the most recent trading day prior to the date of this proxy statement, the closing price of the Stephan common stock was \$_____.

DIVIDEND POLICY

We declared and paid cash dividends at the rate of \$.02 per share for each quarter in 1996 through the quarter ended December 31, 2003. While there are no restrictions on our ability to declare dividends, we anticipate that in the future, earnings will be retained to finance our operations. Any decision as to the future declaration of dividends on our common stock will depend on the results of operations and our financial condition and such other factors as our board of directors, in its discretion, deems relevant.

SELECTED FINANCIAL INFORMATION

The following table sets forth our selected financial information for each of the last five fiscal years in the five year period ended December 31, 2003. The financial information for the years in the five year period ended December 31, 2003, is derived from our financial statements which have been audited by Deloitte & Touche, LLP, independent certified public accountants. The financial data set forth below should be read in conjunction with our audited and unaudited financial statements and the Management's Discussion and Analysis of Financial Condition and Results of Operations in Stephan's Annual Report on Form 10-K for the year ended December 31, 2003, which is incorporated by reference in this proxy statement. The financial data set forth below also should be read in conjunction with Stephan's audited consolidated financial statements as of December 31, 2003 and for each of the years in the three-year period ended December 31, 2003. No pro forma data giving effect to the merger is provided because Stephan does not believe such information is material to stockholders in evaluating the merger and the merger agreement since the merger consideration will be paid to Stephan's public stockholders solely in cash and Stephan's public stockholders will no longer have any equity interest in Stephan if the merger is completed.

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(Amounts in thousands, except per share information).

	Fiscal Year Ended 12/31/03	Fiscal Year Ended 12/31/02	Fiscal Year Ended 12/31/01	Fiscal Year Ended 12/31/00	Fiscal Year Ended 12/31/99
Net Sales	\$ 25,366	\$ 25,067	\$ 28,296	\$ 31,138	\$ 34,356
Income / (Loss) before income taxes and cumulative effect of change in accounting principle	1,487	1,400	746	1,006	3,036
Income / (Loss) from continued operations before cumulative effect of change in accounting principle	760	503	608	622	1,843
Cumulative effect of change in accounting principle		(6,762)			
Net income / (loss)	760	(6,259)	608	622	1,843
Current Assets	23,029	20,284	20,116	28,199	27,447
Total Assets	48,063	47,655	57,062	58,769	59,435
Current Liabilities	5,085	3,514	4,067	4,521	3,725
Long Term Debt	4,348	6,395	7,758	9,124	10,418
Income before cumulative effect of change in accounting principle	.18	.12	.14	.14	.40
Cumulative effect of change in accounting principle		(1.58)			
Net income / (loss)	.18	(1.46)	.14	.14	.40
Cash dividends	.08	.08	.08	.08	.08

* Net income / (loss) per common share is based upon the weighted average number of common shares outstanding in accordance with Statement of Financial Accounting Standards No. 128. The weighted average number of shares outstanding were 4,312,711 for 2003, 4,285,577 for 2002, 4,285,577 for 2001, 4,385,019 for

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2000 and 4,567,439 for 1999. The weighted average number of diluted shares outstanding were not significantly different in any of the aforementioned years.

SPECIAL FACTORS

Background of the Merger

In early 2001, Frank F. Ferola, the Chairman and the Chief Executive Officer of Stephan, and the owner at the time of approximately 17% of Stephan's common stock, began reviewing the following factors involving Stephan:

the failure of the public equity market to fairly reflect the value of Stephan's common stock in the public market place, which failure he believed would not be remedied in the near future;

Stephan's declining revenues and profitability and the difficult competitive conditions faced by Stephan including Stephan's inability to devote sufficient advertising resources to counter the advertising of its larger competitors (e.g., Proctor & Gamble) and ever-shrinking shelf space as the larger competitors' multiple lines of products compete with niche companies and small manufacturers, such as Stephan;

the disproportionate financial burden being placed upon Stephan (a small public company as compared to its significantly larger, public company competitors), as a result of the increasing regulatory compliance costs being incurred or to be incurred by Stephan.

During 2001, Mr. Ferola, as part of the acquisition group, performed an analysis of the company's income, balance sheet (both as to assets on hand, and existing liabilities), cash flows, future market prospects, and the possible impact of a slowing economy on Stephan's economic outlook. This analysis indicated to Mr. Ferola, and to the members of the acquisition group, that the price at which the Stephan common stock was being traded was substantially below the value determined by that analysis. Furthermore, in light of the significant decline in the market price of Stephan's common stock that had preceded the analysis, the challenges faced by Stephan in the marketplace, and the very low trading volume of the stock, it did not appear likely that the market price per share would rise significantly in the foreseeable future.

In addition, the members of the acquisition group believed that by eliminating the regulatory compliance costs and other costs necessitated as a result of Stephan's status as a publicly traded company, Stephan could achieve a greater level of profitability. Also, the acquisition group believed that these additional costs, when combined with the very low volume of stock being traded, were artificially depressing the value of the Stephan common stock (with the stock trading at or below \$3.00 per share throughout 2001). However, absent a transaction in which Stephan would become a non-publicly traded entity, Mr. Ferola and the acquisition group did not believe that this problem would be remedied within the foreseeable future. As a result of this review, Mr. Ferola (along with the other members of the acquisition group) began considering a proposal to purchase all of the shares of common stock of Stephan not otherwise owned by the acquisition group. After reviewing several alternatives, and the effects of such actions upon the shareholders, the acquisition group concluded that the most appropriate and equitable approach would be to structure a merger transaction in which the Stephan shareholders (other than the members of the acquisition group) would have their stock purchased at a price significantly in excess of the then publicly established stock value. The acquisition group believed that a merger would have the advantage of providing certainty to the parties, while also permitting the transaction to

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proceed only upon the receipt of the approval of a majority of the Stephan shareholders. The transaction is being presented to the Stephan shareholders at this time since the terms and conditions for the proposed transaction have been agreed upon by the parties, and all necessary financing has been obtained to permit the transaction to proceed.

On February 14, 2001, the Stephan board of directors appointed Curtis Carlson and Leonard Genovese, both independent directors, as members of a special committee to consider the terms and conditions of a possible future proposal from the acquisition group to purchase the shares of Stephan's common stock not already owned by the acquisition group as well as to review and investigate various strategic alternatives for Stephan, including the possible sale to or merger with a third party acquiror. The special committee was authorized to engage legal counsel and a financial advisor at the expense of Stephan, to consider the proposed offer from the acquisition group, as well as any other bonafide offers made to Stephan, to negotiate the definitive terms and conditions of any such transaction and to prepare and deliver to our board of directors its presentation and recommendation on the appropriate course of action for Stephan.

The special committee then began the process of selecting an investment banking firm to serve as its financial advisor. Written materials and proposals were received from four firms. Each firm then made a live presentation as to its capabilities, its plan for enhancing shareholder value and its fee arrangement. After carefully considering all of these factors, the special committee engaged Robinson Humphrey as its financial advisor on July 25, 2001, with instructions to proceed with a private auction process in an attempt to sell Stephan to the highest bidder. Robinson Humphrey was selected primarily because of the special committee's confidence in its personnel, as all firms proposed to conduct a private auction and their proposed fee arrangements were substantially similar.

Robinson Humphrey then began preparing financial and other information on Stephan in a confidential information memorandum (the Memorandum) for distribution to potential buyers in the private auction process. It also created a standard form confidentiality letter to be signed by each potential bidder, as well as a list of potential strategic and financial buyers for Stephan.

In the private auction, potential buyers that Robinson Humphrey and the special committee believed would have a reasonable chance of being interested in acquiring Stephan were contacted. Robinson Humphrey contacted the potential buyers via telephone, facsimile or email. Robinson Humphrey followed up with the potential buyers to determine their level of interest in receiving the Memorandum. For those buyers that received the Memorandum, Robinson Humphrey contacted them to request preliminary proposals.

Beginning in September 2001, Robinson Humphrey contacted 50 potential buyers including 25 potential financial buyers and 25 potential strategic buyers. The strategic buyers were primarily consumer products companies that sold similar or complementary products to those sold by Stephan. There were 14 potential buyers that expressed an interest in acquiring Stephan and executed a confidentiality agreement and as a result received information packets including the Memorandum. On October 12, 2001, Robinson Humphrey requested preliminary proposals from interested parties.

On November 28, 2001, the acquisition group submitted a preliminary proposal to Robinson Humphrey to acquire, through Eastchester, all of the shares of Stephan's common stock not owned by the acquisition group at a price of \$4.00 per share in cash. No bona fide competing proposals were received. A proposal was received from a third party to purchase all of Stephan's stock at a price of approximately \$1.25 per share, of which \$.80 per share was cash and the \$.45 balance was stock of the acquiror; however, that proposal was

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rejected due to the low price and no further offer was received from that party. Negotiations were then undertaken by Robinson Humphrey on behalf of the special committee with the acquisition group in an effort to obtain a higher price. Much of the negotiations turned on whether financing could be obtained by the acquisition group, and in the period from late 2001 to early 2002, the financing issue became very difficult. The acquisition group engaged in negotiations with Merrill Lynch Business Financial Services, Inc. and General Electric Capital Business Asset Funding Corp., as well as other potential lenders, to arrange the financing necessary to enable the acquisition group to proceed with an offer to purchase the common stock of Stephan held by the unaffiliated shareholders. These negotiations were delayed significantly due to economic concerns which were both industry specific and general and which resulted in a shortage of available financing. Indeed, it was not until 2003 that the negotiations were successfully concluded and commitment letters were obtained. On April 16, 2002, Stephan publicly announced the special committee's tentative acceptance of the acquisition group's \$4.00 offer.

As a result of further negotiations with Robinson Humphrey and the special committee, in which the special committee insisted on a higher price due to its analysis, with the assistance of Robinson Humphrey, of Stephan's financial condition and prospects, the acquisition group revised its bid to \$4.50 per share, consisting of cash of \$3.25 and an unsecured three and one-half year note of \$1.25 per share that would bear simple interest at 4.5%. At a meeting in August 2002, after presentation by Robinson Humphrey of its financial analysis and its conclusion that it believed that it would be able to render a fairness opinion regarding the proposed transaction, the special committee approved the transaction subject to the negotiation and signing of a definitive merger agreement, receipt of a formal fairness opinion from Robinson Humphrey and the approval of Stephan's shareholders. Acceptance of the revised bid was announced to the public on August 16, 2002.

For the next several months, the activities of the special committee and its advisors were concentrated on negotiating a definitive merger agreement and monitoring and reviewing the financial results and prospects of Stephan to determine whether the proposed merger consideration could be financed. In January 2003, Burt & Pucillo, P.A. resigned as special committee counsel because it was not satisfied with the proposed terms of the transaction. Burt & Pucillo was replaced by the Miami law firm of Mitrani, Rynor, Adamsky & Macaulay, P.A., based upon discussions between Mr. Carlson and Robert Macaulay and his firm's qualifications and experience in comparable matters.

Between April 2001 and January 2003, a shareholder sent to Stephan and the special committee various informal proposals and expressions of interest regarding a possible acquisition of Stephan. The special committee did not consider these bona fide proposals because the shareholder was unwilling to sign a confidentiality agreement comparable to the form of agreement required by the special committee of other potential purchasers before a due diligence review would be permitted. In February 2003, the shareholder signed the confidentiality agreement and submitted a formal proposal to acquire substantially all of Stephan's assets pursuant to an asset purchase agreement subject to various conditions including due diligence, financing and an 18-month indemnification from Stephan to the purchaser. The special committee rejected this proposal as being substantially inferior to the acquisition group's proposal due to the conditions placed, the impracticality of an asset sale to liquidate a public company, and the potentially adverse tax consequences to Stephan and its shareholders of an asset sale transaction. The special committee requested that the shareholder submit an offer through a standard stock purchase agreement in the same form submitted by the acquisition group in order to facilitate a fair comparison of the proposals; however, the shareholder never did so.

In April 2003, after several months of negotiations with potential lenders, the acquisition group informed the special committee that it was confident that it would be able to obtain the necessary financing for the merger.

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but still did not have a firm commitment for the financing; nonetheless, the acquisition group stated that it was prepared to go forward and enter into a definitive merger agreement.

On April 30, 2003, a meeting of the special committee was held by telephone conference call. In attendance at this meeting were the members of the special committee, its counsel, Mr. Macaulay, and representatives of Robinson Humphrey. Mr. Carlson discussed the history of the creation of the special committee, its search for an investment banking firm to explore enhancing shareholder value including the possible sale of Stephan, the selection of Robinson Humphrey as the investment banking firm and the decision to proceed with a private auction process. Robinson Humphrey then discussed the creation of a confidentiality letter to be signed by all persons interested in reviewing non-public information about Stephan, the collection and preparation of a set of confidential disclosure materials relative to Stephan in the confidential information Memorandum to be submitted to potential buyers, the creation of a list of persons who might be interested in acquiring Stephan and whom Robinson Humphrey contacted, the responses that Robinson Humphrey received, the persons to whom the Memorandum was delivered, and the communications held with prospective buyers, including prospective buyers who communicated with Robinson Humphrey after the April and August 2002 announcements regarding tentative acceptance of the acquisition group's bid. Robinson Humphrey noted that the acquisition group's bid was the only definitive bid received. In the weeks prior to the April 30, 2003, meeting, Robinson Humphrey was not contacted by, nor did it have any other communications with, any prospective buyers with whom it had previously communicated regarding Stephan (other than the shareholder described above).

In anticipation of the April 30, 2003, meeting, Robinson Humphrey had prepared and distributed to the participants a detailed written investment banking presentation which discussed and analyzed the acquisition group's proposal to acquire all of the issued and outstanding shares of Stephan's common stock from shareholders other than members of the acquisition group, for a total consideration of \$4.50 per share, comprised of \$3.25 in cash and \$1.25 in an unsecured promissory note. Robinson Humphrey discussed the contents of the investment banking presentation, answered questions from the special committee and Mr. Macaulay, and stated that Robinson Humphrey was prepared to issue its fairness opinion with respect to the merger transaction. The special committee then considered a proposed Agreement and Plan of Merger among The Stephan Co., Eastchester Enterprises, Inc. and Gunhill Enterprises, Inc. (the merger agreement), which had been reviewed by all of the persons in attendance. Mr. Carlson also noted that many months had been spent negotiating the terms and conditions of the merger agreement. Mr. Carlson further noted that the merger agreement was prepared based upon review and comments from legal counsel for the acquisition group, the special committee and Stephan as well as comments from Robinson Humphrey. The special committee then unanimously adopted resolutions approving the proposed transaction.

The merger agreement contained a financing contingency such that the acquisition group could terminate the agreement in the event that it did not obtain firm commitments, on terms acceptable to the acquisition group in its reasonable discretion, for the financing of the transactions contemplated by the merger agreement. The merger agreement provided the acquisition group with up to 70 days, i.e., until July 9, 2003, in order to secure the financing. The merger agreement also provided for a closing deadline of October 15, 2003. Due to difficulties encountered by the acquisition group in securing the necessary financing, the acquisition group was unable to obtain the necessary financing commitments by July 9, 2003; however, neither party asserted its right to terminate the merger agreement and the parties continued working together in an attempt to secure the financing and proceed with the merger transaction. In October 2003, the acquisition group informed the special committee that it had secured the necessary financing for the merger transaction, and on October 24, 2003, Stephan and the acquisition group entered into an Amended and Restated Merger Agreement pursuant to

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which the closing deadline was extended until March 15, 2004, and the financing contingency was eliminated. The special committee had approved this amendment to the merger agreement at a meeting on October 20, 2003.

In December 2003, after noting Stephan's improved financial condition and results of operations since April 30, 2003, combined with a general improvement in the capital markets, the special committee informed Stephan that it believed that the proposed merger price may need to be renegotiated upward. The special committee requested that Stephan provide it and Robinson Humphrey as soon as available with Stephan's unaudited financial statements and other relevant financial information for the year ended December 31, 2003, so that an appropriate analysis could be conducted. In February 2004, the special committee and Robinson Humphrey received the requested updated financial data and resumed negotiations with the acquisition group regarding a new merger price. In early March 2004, after extensive discussions and negotiations, the parties agreed, subject to receipt of a fairness opinion from Robinson Humphrey, to a merger price of \$4.60 cash rather than the \$3.25 cash plus \$1.25 in unsecured notes which had previously been agreed upon.

On March 15, 2004, a meeting of the special committee was held by telephone conference call. In attendance at this meeting were the members of the special committee, its counsel, Mr. Macaulay, and representatives of Robinson Humphrey. In anticipation of the meeting, Robinson Humphrey had prepared and distributed to the participants a detailed written investment banking presentation which discussed and analyzed the acquisition group's revised proposal to acquire all of the issued and outstanding shares of Stephan's outstanding stock from shareholders other than members of the acquisition group, for a cash consideration of \$4.60 per share. Robinson Humphrey noted that, since April 30, 2003, it had not received any credible inquiries from potential purchasers and then discussed the contents of the investment banking presentation, answered questions from the special committee and Mr. Macaulay and stated that Robinson Humphrey was prepared to issue its fairness opinion with respect to the revised merger transaction. The special committee then considered a proposed second amended and restated agreement and plan of merger among Stephan, Eastchester and Gunhill, which had been reviewed by all of the parties in attendance. Mr. Carlson noted that the agreement was in substantially the same form as the October 24, 2003, amended and restated merger agreement, except for the different price and closing deadline. The new merger agreement provided for a closing deadline of August 2, 2004. The special committee then unanimously adopted resolutions approving the proposed transaction. On March 24, 2004, Stephan and the acquisition group entered into the merger agreement.

Because a question could be raised with respect to Stephan's compliance with the board of directors' independence requirements of the American Stock Exchange listing rules, Stephan decided to disclose the potential non-compliance in its Annual Report on Form 10-K for the year ended December 31, 2002; however, the Company has subsequently determined that no such independence issues exist. This determination is based upon several communications with American Stock Exchange representatives in this regard. The American Stock Exchange has agreed with Stephan's position that it is currently in compliance with these rules. Accordingly, Stephan does not expect to be subject to any civil penalties in this regard.

In November and December 2003, the American Stock Exchange requested information from Stephan to support its position that it is in compliance with its independence rules. Specifically, while two directors (Messrs. D'Ambrosio and Ferola) are officers, and thus not independent under the applicable American Stock Exchange listing rules, the remaining four members are independent. With respect to matters relating to the pending merger transaction the members of the acquisition group (Mr. Ferola along with Messrs. D'Ambrosio, DePinto and Shaheen) may have a disabling conflict which could interfere with the exercise of independent

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judgment. In this regard, the special committee, consisting of the remaining directors, both of whom are independent, was formed to address all relevant matters pertaining to the merger transaction. Further, we note that Curtis Carlson is not disqualified under the provisions of the American Stock Exchange listing rules. The compensation received by Mr. Carlson's law firm from Stephan for its work in various litigation matters has not exceeded the thresholds set forth in the American Stock Exchange listing rules for any of the past three years. With respect to the audit committee, as discussed above, while Mr. DePinto is part of the acquisition group, the work of the audit committee is not related to and should not impact any of the matters which come before the special committee. Therefore, Mr. DePinto should be deemed independent and qualified to serve on Stephan's audit committee. Further, Mr. Carlson, whose law firm has historically represented Stephan with respect to certain litigation matters, may also be considered to be independent. Although his Payton & Carlson, P.A. has received compensation from the Company, neither Mr. Carlson nor his firm serves as disclosure or corporate counsel for Stephan and the legal work provided by the subject firm is unrelated to Mr. Carlson's role with and the proceedings of the audit committee.

Opinion of Robinson Humphrey

Pursuant to an engagement letter dated July 25, 2001, Robinson Humphrey has acted since that date as financial advisor to the special committee. In connection with the proposed merger, Robinson Humphrey was asked by the special committee to render to the special committee an opinion with respect to the fairness, from a financial point of view, to Stephan's shareholders, other than Frank F. Ferola, Thomas M. D'Ambrosio, John DePinto and Shouky A. Shaheen, the members of the acquisition group, of the merger consideration to be received in the proposed transaction. Robinson Humphrey was selected to advise the special committee because of its experience working with companies in the consumer sector and its standing as a nationally-recognized investment banking firm which is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other opinions.

On March 15, 2004, Robinson Humphrey delivered its opinion to the special committee and our board of directors to the effect that, as of such date, based upon and subject to certain qualifications set forth therein, the consideration of \$4.60 per share of common stock outstanding (other than 1,150,606 shares of common stock owned by the members of the acquisition group) to be received in the proposed merger was fair to Stephan's other shareholders from a financial point of view. The consideration will consist of \$4.60 per share of our common stock in cash.

THE FULL TEXT OF ROBINSON HUMPHREY'S WRITTEN OPINION IS ATTACHED AS APPENDIX B TO THIS PROXY STATEMENT AND IS INCORPORATED HEREIN BY REFERENCE. THE DESCRIPTION OF THE OPINION SET FORTH HEREIN IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO APPENDIX B. STEPHAN'S SHAREHOLDERS ARE URGED TO READ THE OPINION IN ITS ENTIRETY FOR A DESCRIPTION OF THE PROCEDURES FOLLOWED, ASSUMPTIONS MADE, MATTERS CONSIDERED AND QUALIFICATIONS AND LIMITATIONS ON THE REVIEW UNDERTAKEN BY ROBINSON HUMPHREY IN CONNECTION THEREWITH.

The Robinson Humphrey opinion is necessarily based upon market, economic and other conditions as they existed and could be evaluated on, and on the information made available to Robinson Humphrey, as of the date of its opinion. The financial markets in general and the market for the Company's shares, in particular,

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are subject to volatility, and Robinson Humphrey's opinion did not purport to address potential developments in the financial markets or the market for the Company's shares after the date of the opinion. Robinson Humphrey assumed that the merger would be consummated on the terms described in the March 12, 2004 draft of the merger agreement without any change in, or waiver of, any material terms or condition by the Company.

Robinson Humphrey's opinion is directed to the Stephan Board and relates only to the fairness of the merger consideration to be received from a financial point of view, does not address any other aspect of the proposed transaction, and does not constitute a recommendation to any shareholder of Stephan regarding how such shareholder should vote in relation to the merger.

In arriving at its opinion, Robinson Humphrey, among other things:

Reviewed the draft merger agreement dated March 12, 2004 and certain related documents;

Analyzed the proposed form of consideration to be received by shareholders in connection with the merger;

Analyzed publicly available information concerning Stephan which Robinson Humphrey believed to be relevant to its inquiry;

Reviewed and discussed with appropriate management personnel of Stephan, the past and current business activities and financial results and the financial outlook of Stephan;

Reviewed financial and operating information with respect to the business, operations and prospects of Stephan furnished to Robinson Humphrey by Stephan;

Analyzed the trading history of Stephan's common stock from April 16, 2002 to March 5, 2004 and a comparison of that trading history with those of other companies which Robinson Humphrey deemed relevant;

Compared the historical financial results and present financial condition of Stephan with those of other companies which Robinson Humphrey deemed relevant;

Compared the financial terms of the proposed merger with the financial terms of certain other recent transactions which Robinson Humphrey deemed relevant; and

Reviewed certain historical data relating to acquisitions of publicly traded companies, including stock price premiums paid in such acquisitions.

In addition, Robinson Humphrey held discussions with Stephan management concerning Stephan's business, operations, assets, present condition and future prospects and undertook such other studies, analysis and investigations as Robinson Humphrey deemed appropriate.

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In conducting its analysis and arriving at its opinion, Robinson Humphrey assumed and relied upon, without independent verification, the accuracy and completeness of the information it reviewed for the purposes of the opinion. With respect to Stephan's financial projections, Robinson Humphrey assumed that such projections reflected the best currently available (at that time) estimates and judgments of the management as to the future

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financial performance of Stephan. Robinson Humphrey did not make, nor was it furnished with, an independent valuation or appraisal of the assets or liabilities of Stephan.

No limitations were imposed by Stephan, the special committee or the Stephan board of directors on the scope of Robinson Humphrey's investigation or the procedures to be followed by Robinson Humphrey in rendering its opinion. The opinion is necessarily based on economic, market and other conditions in effect on, and the information made available to Robinson Humphrey as of, the date of its analysis.

In addressing the fairness, from a financial point of view, of the merger consideration to be received by the unaffiliated shareholders of Stephan, Robinson Humphrey employed a variety of generally recognized valuation methodologies and performed those which it believed were most appropriate for developing its opinion including historical stock price analysis, comparable public companies analysis, analysis of selected merger transactions, purchase price premiums analysis, price /earnings multiples analysis and discounted cash flow analysis. The preparation of a fairness opinion involves various determinations of the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances, and, therefore, such an opinion is not readily susceptible to summary description. In arriving at its fairness opinion, Robinson Humphrey did not attribute any particular weight to any analysis or factor considered by it, but rather made qualitative judgments about the significance and relevance of each analysis and factor. None of the analyses performed by Robinson Humphrey was assigned a greater significance by Robinson Humphrey than any other. Accordingly, Robinson Humphrey believes that its analyses must be considered as a whole and that a review of selected portions of such analyses and the factors considered therein, without considering all analyses and factors, could create a misleading or incomplete view of the processes underlying its opinion and any conclusions reached therein. In its analyses, Robinson Humphrey made numerous assumptions with respect to industry performance, general business and economic conditions, and other matters, many of which are beyond Stephan's control. Any estimates contained in Robinson Humphrey's analyses are not necessarily indicative of actual values or predictive of future results or values that may be significantly more or less favorable than such estimates. Estimates of values of companies do not purport to be appraisals or necessarily reflect the prices at which companies or their securities actually may be sold. No public company utilized as a comparison is identical to Stephan and no merger and acquisition transaction involved companies identical to Stephan. An analysis of the results of such comparisons is not mathematical; rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the comparable companies and transactions and other factors that could affect the values of companies to which Stephan is being compared. In addition, as described above, Robinson Humphrey's opinion and presentation to the special committee and Stephan's board of directors was one of many factors taken into consideration by Stephan's board of directors in making its determination to approve the merger and merger agreement.

The following is a brief summary of all material analyses performed by Robinson Humphrey in connection with its opinion delivered to Stephan's special committee and board of directors on March 15, 2004.

Historical Stock Price Analysis.

Robinson Humphrey analyzed the prices at which the Common Stock of Stephan traded from April 16, 2002 to March 5, 2004. During the period April 16, 2002 to March 5, 2004 Robinson Humphrey observed that the high closing price for the Common Stock during this period was \$4.60 on January 27, 2004 and the low closing price for the Common Stock during this period was \$3.00 on August 14, 2002 and April 25, 2003. During the period March 5, 2003 through March 5, 2004, Robinson Humphrey observed that 29% of the total trading in the shares of Stephan were traded in a price range below \$3.50, 20% of the shares were traded in a

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price range of \$3.50 to \$3.75, 5% of the shares were traded in a price range of \$3.75 to \$4.00, 20% of the shares were traded in a price range of \$4.00 to \$4.25 and 26% of the shares were traded in a price range of \$4.25 to \$4.50. During the period March 5, 2001 through March 5, 2004, Robinson Humphrey observed that 54% of the total trading in the shares of Stephan were traded in a price range below \$3.50, 18% of the shares were traded in a price range of \$3.50 to \$3.75, 6% of the shares were traded in a price range of \$3.75 to \$4.00, 10% of the shares were traded in a price range of \$4.00 to \$4.25 and 12% of the shares were traded in a price range of \$4.25 to \$4.50.

Based on the merger consideration of \$4.60 per share for Stephan, Robinson Humphrey calculated per share premiums of 53.3%, 46.0% and 66.1% to Stephan's closing prices at one trading day, one week and four weeks prior, respectively, to the April 16, 2002 announcement that the Special Committee had accepted the original bid of the acquisition group, to acquire Stephan at a cash price of \$4.00 per share.

Comparable Public Companies Analysis.

Using publicly available information, Robinson Humphrey compared certain financial and operating information and ratios (described below) for Stephan with corresponding financial and operating information and ratios for a group of other publicly traded personal care product companies with market capitalizations less than \$500 million (the Small Cap Comparable Public Companies). The companies included in the Small Cap Comparable Public Companies analysis were Chattem Inc., Del Laboratories, Inc., Parlux Fragrances, Inc., Playtex Products, Inc. and Revlon, Inc. (collectively, Public Comparables). Using Stephan's actual results for the fiscal year ending December 31, 2003 (fiscal 2003), assuming 4,501,195 fully diluted shares outstanding and management's estimate for cash and debt balances as of December 31, 2003, Robinson Humphrey compared:

Price of common stock divided by earnings per share (P/E) ratios for the latest 12 months (based on information from First Call Earnings Estimates and Robinson Humphrey Research Department Estimates - Robinson Humphrey Research). P/E ratios for the last twelve months (based on information from First Call and Robinson Humphrey Research) which ranged from 16.8x to 21.1x for the Public Comparables (with an average of 19.1x), compared to 16.3x for Stephan (based on management's fiscal 2003 net income of \$1,272,000). The average multiple of 19.1x Stephan's fiscal 2003 earnings estimate implies a value of \$5.41 per share for Stephan.

The calendar 2004 P/E ratios ranged from 18.0x to 19.3x for the Public Comparables (with an average of 18.6x), compared to 21.9x for Stephan. The average multiple of 18.6x for the Public Comparables using Stephan's fiscal 2004 earnings estimate implies a value of \$3.29 per share for Stephan.

The ratio of firm value (stock market equity value plus debt and preferred stock minus cash and marketable securities) to revenues for the latest twelve months. The ratios ranged from 1.0x to 2.9x for the Public Comparables (with an average of 1.7x), compared to 0.3x for Stephan (based on fiscal 2003 revenues). The average multiple of 1.7x Stephan's latest twelve months revenues implies a value of \$12.15 per share for Stephan.

The ratio of firm value to latest twelve months earnings before interest, taxes, depreciation and amortization (EBITDA). The ratios ranged from 9.5x to 15.x for the Public Comparables (with an average of 11.2x), compared to 2.8x for Stephan. The average multiple of 11.2x Stephan's fiscal 2003 EBITDA implies a value of \$9.21 per share for Stephan.

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The ratio of firm value to latest twelve months earnings before interest and taxes (EBIT). The ratios ranged from 11.5x to 12.8x for the Public Comparables (with an average of 12.0x), compared to 3.2x for Stephan. The average multiple of 12.0x Stephan s fiscal 2003 EBIT implies a value of \$8.64 per share for Stephan.

Robinson Humphrey applied an Importance Weighting to each valuation parameter as follows: 2003 Revenue: 5.0%; 2003 EBITDA: 20.0%; 2003 EBIT: 20.0%; 2003 Net Income: 25.0%%; Projected 2004 Net Income: 30.0%. Based on the weighted average valuation multiples for the Small Cap Comparable Public Comparables, Robinson Humphrey calculated a range of implied equity values from \$3.29 per share to \$12.15 per share, with an average implied equity value of \$6.52 per share for Stephan, based on 4,501,195 fully diluted shares outstanding.

In addition, Robinson Humphrey applied the multiples from the comparable public company analysis to Stephan financial and operating information that excluded certain Quinsana Medicated Talc-related non-recurring revenue and profitability. In early 2003, Stephan made substantial extraordinary sales of that product to the U.S. Department of Defense. Based on the weighted average valuation multiples for the Small Cap Comparable Public Comparables, Robinson Humphrey calculated a range of implied equity values from \$3.29 per share to \$11.59 per share, with an average implied equity value of \$5.22 per share for Stephan, based on 4,501,195 fully diluted shares outstanding.

Robinson Humphrey also calculated a range of implied equity values for Stephan by applying the valuation multiples of a subset of the Small Cap Comparable Public Companies. This subset included those companies that do not have nationally branded products, collectively, the Non-Nationally Branded Comparable Public Companies. The Non-Nationally Branded Comparable Public Companies consisted of Del Laboratories, Inc., Helen of Troy Corp., Inter Parfums, Inc., and Parlux Fragrances, Inc. Using the Non-Nationally Branded Comparable Public Companies and based on 4,501,195 fully diluted shares outstanding, Robinson Humphrey calculated the following:

The latest 12 months P/E ratios ranged from 16.2x to 21.1x (with an average of 118.0x), compared to 48.8x for Stephan (based on Stephan s fiscal 2003 earnings). The average multiple of 18.0x Stephan s fiscal 2003 earnings implies a value of \$5.09 per share for Stephan.

The fiscal 2004 P/E ratios averaged 13.1x compared to 21.9x for Stephan. The average multiple of 13.1x Stephan s projected fiscal 2004 earnings estimate implies a value of \$2.31 per share for Stephan.

The ratios of firm value to latest twelve months revenues ranged from 1.0x to 2.9x (with an average of 1.3x), compared to 0.3x for Stephan (based on fiscal 2003 revenues). The average multiple of 1.3x Stephan s fiscal 2003 revenues implies a value of \$10.21 per share for Stephan.

The ratios of firm value to EBITDA ranged from 9.5x to 11.7x (with an average of 10.4x), compared to 3.2x for Stephan. The average multiple of 10.4x Stephan s fiscal 2003 EBITDA implies a value of \$8.72 per share for Stephan.

The ratios of firm value to latest twelve months EBIT ranged from 11.5x to 12.7x for the Public Comparables (with an average of 12.0x), compared to 3.2x for Stephan. The average multiple of 12.0x Stephan s fiscal 2003 EBIT implies a value of \$8.66 per share for Stephan.

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Robinson Humphrey applied an Importance Weighting to each valuation parameter as follows: 2003 Revenue: 5.0%; 2003 EBITDA: 20.0%; 2003 EBIT: 20.0%; 2003 Net Income: 25.0%; and Projected 2004 Net Income: 30.0%. Based on the weighted average valuation multiples for the Non-Nationally Branded Comparable Public Companies, Robinson Humphrey calculated a range of implied equity values from \$2.31 per share to \$10.21 per share, with an average implied equity value of \$5.95 per share for Stephan, based on 4,501,195 fully diluted shares outstanding.

In addition, Robinson Humphrey applied the multiples from the comparable public company analysis to Stephan financial and operating information that excluded certain Quinsana Medicated Talc-related non-recurring revenue and profitability. Stephen management does not anticipate that such military sales will occur in 2004 or subsequent years. Based on the weighted average valuation multiples for the Non-Nationally Branded Comparable Public Companies and excluding these military sales, Robinson Humphrey calculated a range of implied equity values from \$2.31 per share to \$9.76 per share, with an average implied equity value of \$4.72 per share for Stephan, based on 4,501,195 fully diluted shares outstanding.

Analysis of Selected Merger Transactions.

Robinson Humphrey compared the consideration paid in 124 mergers and acquisitions involving personal care product companies occurring since January 1, 1998. For each of the transactions with disclosed consideration and publicly available financial results on the company acquired, Robinson Humphrey calculated and analyzed the multiple of firm value to the latest twelve months revenues, EBITDA, and EBIT to calculate a range of implied equity values for Stephan, as follows:

The ratios of firm value to latest twelve months revenues ranged from 0.4x to 2.8x (with an average of 1.2x), compared to the 0.3x multiple for Stephan (based on Stephan's fiscal 2003 revenues) under the Merger Agreement. The average multiple of 1.2x Stephan's fiscal 2003 revenues implies a value of \$9.34 per share for Stephan.

The ratios of firm value to latest twelve months EBITDA ranged from 2.5x to 10.7x (with an average of 6.4x), compared to the 3.3x multiple for Stephan (based on Stephan's fiscal 2003 EBITDA) under the Merger Agreement. The average multiple of 6.4x Stephan's fiscal 2003 EBITDA implies a value of \$6.44 per share for Stephan.

The ratios of firm value to latest twelve months EBIT ranged from 2.9x to 12.5x (with an average of 8.0x), compared to the 3.8x multiple for Stephan (based on Stephan's fiscal 2003 EBIT) under the Merger Agreement. The average multiple of 8.0x Stephan's fiscal 2003 EBIT implies a value of \$6.64 per share for Stephan.

Robinson Humphrey also calculated equity value as a multiple of the latest twelve months net income to derive implied equity values for Stephan based on 4,501,195 fully diluted shares outstanding, as follows:

The ratios of equity value to net income ranged from 3.6x to 23.1x (with an average of 11.5x), compared to the 16.3x multiple for Stephan (based on Stephan's fiscal 2003 net income) under the Merger Agreement. The average multiple of 11.5x Stephan's fiscal 2003 net income implies a value of \$3.24 per share for Stephan.

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Robinson Humphrey applied an Importance Weighting to each valuation parameter as follows: 2003 Revenue: 5.0%; 2003 EBITDA: 30.0%; 2003 EBIT: 30.0%; and 2003 Net Income: 35.0%. Based on the weighted average valuation multiples Robinson Humphrey calculated an average implied equity value of \$5.52 per share for Stephan based on 4,501,195 fully diluted shares outstanding.

In addition, Robinson Humphrey applied the multiples from the analysis of selected merger transactions to Stephan financial and operating information that excluded certain Quinsana Medicated Talc-related non-recurring revenue and profitability. Based on the average valuation multiples, Robinson Humphrey calculated a range of implied equity values from \$2.05 per share to \$8.95 per share, with an average implied equity value of \$4.37 per share for Stephan, based on 4,501,195 fully diluted shares outstanding.

Purchase Price Premiums Analysis.

Robinson Humphrey reviewed purchase price premiums paid in change of control transactions for the stocks of 15 publicly held personal care product companies from January 1, 1995 to March 5, 2004. This analysis measured the average purchase price premium paid by acquirors over the prevailing stock market prices of the target company one day prior to the announcement of an offer, one week prior to the announcement of an offer, and four weeks prior to the announcement of an offer, resulting in average premiums of 24.6%, 40.8% and 53.2%, respectively.

Robinson Humphrey reviewed purchase price premiums paid in change of control transactions for the stocks of 38 publicly held non-durable consumer product companies from January 1, 1998 to March 5, 2004. This analysis measured the average purchase price premium paid by acquirors over the prevailing stock market prices of the target company one day prior to the announcement of an offer, one week prior to the announcement of an offer, and four weeks prior to the announcement of an offer, resulting in average premiums of 38.5%, 44.1% and 51.4%, respectively.

Robinson Humphrey reviewed purchase price premiums paid in change of control transactions for the stocks of selected publicly held companies in 800 acquisitions involving total consideration of between \$10 million and \$150 million during the period from January 1, 1998 to March 5, 2004. This analysis measured the average purchase price premium paid by acquirors over the prevailing stock market prices of the target company one day prior to the announcement of an offer, one week prior to the announcement of an offer, and four weeks prior to the announcement of an offer, resulting in average premiums of 35.0%, 41.7% and 47.7%, respectively.

Robinson Humphrey calculated the average of these three analyses per each period (one day prior to the announcement of an offer, one week prior to the announcement of an offer, and four weeks prior to the announcement of an offer), resulting in average premiums of 32.7%, 42.2% and 50.8%, respectively. Stephan was trading at \$3.00, \$3.15 and \$2.77 one day, one week and four weeks prior to the April 16, 2002 announcement date, respectively. The average premiums paid in these transactions imply share prices for Stephan of \$3.98, \$4.48 and \$4.18, respectively.

Robinson Humphrey also reviewed the average premium paid over the prevailing stock market prices of targets one day prior to the announcement of an offer from January 1, 1993 through December 31, 2003 for publicly disclosed acquisitions of public companies in any industry, resulting in an average premium of 46.4%. Stephan was trading at \$3.00 one day prior to the April 16, 2002 announcement date, resulting in an implied Company share price of \$4.39.

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Robinson Humphrey reviewed the average P/E multiple paid in 2001 through 2003 for acquisitions of public companies in any industry involving total consideration of between \$0.1 million and \$24.9 million. The average P/E multiple paid in these years was 14.6x. Applying this multiple to Stephan's fiscal 2003 net income implies a share price of \$4.13.

Discounted Cash Flow Analysis.

Robinson Humphrey performed a discounted cash flow analysis using Stephan's financial projections for fiscal 2004 through 2008 to estimate the net present equity value per share for Stephan. Robinson Humphrey calculated a range of present values for Stephan's free cash flows (defined as projected earnings before interest after taxes plus depreciation and amortization, less capital expenditures and any increase in net working capital) for fiscal 2004 through fiscal 2008 using discount rates ranging from 10% to 28%. Robinson Humphrey calculated a range of present values for the terminal value of Stephan using this range of discount rates and EBITDA multiples ranging from 4.0x to 6.0x projected fiscal 2008 EBITDA. The present values of the free cash flows were then added to the corresponding present values of the terminal values. After adding Stephan's estimated cash and cash equivalents and deducting Stephan's estimated debt as of December 31, 2003, Robinson Humphrey calculated the range of net present equity values detailed below:

Discount Rate:	Implied Equity Value per Share for Stephan		
	Terminal Value Multiples of Year 5 EBITDA		
	4.0x	5.0x	6.0x
10.0%	\$ 4.11	\$ 4.29	\$ 4.46
13.0%	\$ 3.98	\$ 4.13	\$ 4.28
16.0%	\$ 3.86	\$ 3.99	\$ 4.13
19.0%	\$ 3.76	\$ 3.88	\$ 3.99
22.0%	\$ 3.67	\$ 3.77	\$ 3.88
25.0%	\$ 3.59	\$ 3.68	\$ 3.77
28.0%	\$ 3.52	\$ 3.60	\$ 3.69

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The following table compares the ranges yielded by each methodology to the purchase price using Stephan's unadjusted valuation parameters:

		Implied Equity			Merger Consideration
		Value Per Share ^[1]			
		High	Low	Average	
I.	Analysis of Comparable Public Companies, Utilizing:				
	Average current trading multiples of selected small-cap Personal Care Product companies	\$ 12.15	\$ 3.29	\$ 6.52 ^[2]	\$ 4.60
	Average current trading multiples of selected non-nationally branded Personal Care Product companies	\$ 10.21	\$ 2.31	\$ 5.95 ^[2]	\$ 4.60
II.	Analysis of Mergers and Acquisitions, Utilizing:				
	Multiples of recent disclosed Personal Care Product Industry transactions	\$ 9.34	\$ 3.24	\$ 5.52 ^[2]	\$ 4.60
III.	Analysis of Acquisition Premiums, Utilizing:				
	Average of Reference Transactions from Securities Data Corp.				
	Average premium 1 day prior to announcement date	NA	NA	\$ 3.98	\$ 4.60
	Average premium 1 week prior to announcement date	NA	NA	\$ 4.48	\$ 4.60
	Average premium 4 weeks prior to announcement date	NA	NA	\$ 4.18	\$ 4.60
	Historical Mergerstat Review Reported Premiums				
	Average premium 1 day prior - All Industries	NA	NA	\$ 4.39	\$ 4.60
IV.	Analysis of Acquisition P/E Multiples, Utilizing:				
	Historical Mergerstat Review Reported P/E Multiples				
	Average 2001 - 2003 P/E Multiple	NA	NA	\$ 4.13	\$ 4.60
V.	Discounted Cash Flow Analysis	\$ 4.46	\$ 3.52	\$ 3.88	\$ 4.60
	AVERAGE	\$ 9.04	\$ 3.09	\$ 4.78	\$ 4.60
	MEDIAN	\$ 9.78	\$ 3.27	\$ 4.39	\$ 4.60
	HIGH	\$ 12.15	\$ 3.52	\$ 6.52	\$ 4.60
	LOW	\$ 4.46	\$ 2.31	\$ 3.88	\$ 4.60

^[1] Based on 4,501,195 fully diluted shares outstanding.

^[2] Based on weighted average results.

The following table compares the ranges yielded by each methodology to the purchase price using Stephan's valuation parameters that excluded certain Quinsana Medicated Talc-related non-recurring revenue and profitability

		Implied Equity			Merger Consideration
		Value Per Share ^[1]			
		High	Low	Average	
I.	Analysis of Comparable Public Companies, Utilizing:				
	Average current trading multiples of selected small-cap Personal Care Product companies	\$ 11.59	\$ 3.29	\$ 5.22 ^[2]	\$ 4.60
	Average current trading multiples of selected non-nationally branded Personal Care Product companies	\$ 9.76	\$ 2.31	\$ 4.72 ^[2]	\$ 4.60

II.	Analysis of Mergers and Acquisitions, Utilizing:				
	Multiples of recent disclosed Personal Care Product Industry transactions	\$ 8.95	\$ 2.05	\$ 4.37 ^[2]	\$ 4.60
III.	Analysis of Acquisition Premiums, Utilizing:				
	Average of Reference Transactions from Securities Data Corp.				
	Average premium 1 day prior to announcement date	NA	NA	\$ 3.98	\$ 4.60
	Average premium 1 week prior to announcement date	NA	NA	\$ 4.48	\$ 4.60
	Average premium 4 weeks prior to announcement date	NA	NA	\$ 4.18	\$ 4.60
	Historical Mergerstat Review Reported Premiums				
	Average premium 1 day prior - All Industries	NA	NA	\$ 4.39	\$ 4.60
IV.	Analysis of Acquisition P/E Multiples, Utilizing:				
	Historical Mergerstat Review Reported P/E Multiples				
	Average 2001 - 2003 P/E Multiple	NA	NA	\$ 2.62	\$ 4.60
V.	Discounted Cash Flow Analysis	\$ 4.46	\$ 3.52	\$ 3.88	\$ 4.60
	AVERAGE	\$ 8.69	\$ 2.79	\$ 4.20	\$ 4.60
	MEDIAN	\$ 9.36	\$ 2.80	\$ 4.37	\$ 4.60
	HIGH	\$ 11.59	\$ 3.52	\$ 5.22	\$ 4.60
	LOW	\$ 4.46	\$ 2.05	\$ 2.62	\$ 4.60

^[1] Based on 4,501,195 fully diluted shares outstanding.

^[2] Based on weighted average results.

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The following table provides a summary of the financial projections Robinson Humphrey used in connection with its analysis of Stephan that were provided by the management of Stephan:

	Projected Years Ending December 31, ^[1]					
	2003	2004	2005	2006	2007	2008
Total Net Sales	\$ 25,336	\$ 24,750	\$ 25,245	\$ 26,002	\$ 27,042	\$ 28,124
<i>% Growth</i>	<i>1.1%</i>	<i>-2.3%</i>	<i>2.0%</i>	<i>3.0%</i>	<i>4.0%</i>	<i>4.0%</i>
Cost of Goods Sold	14,264	14,735	15,033	15,488	16,107	16,751
<i>% of Net Sales</i>	<i>56.3%</i>	<i>59.5%</i>	<i>59.6%</i>	<i>59.6%</i>	<i>59.6%</i>	<i>59.6%</i>
Gross Profit	\$ 11,072	\$ 10,015	\$ 10,212	\$ 10,515	\$ 10,935	\$ 11,373
<i>% of Net Sales</i>	<i>43.7%</i>	<i>40.5%</i>	<i>40.5%</i>	<i>40.4%</i>	<i>40.4%</i>	<i>40.4%</i>
SG&A Expenses (incl.depr. & amort)	9,194	8,849	9,170	9,543	10,062	10,612
<i>% of Net Sales</i>	<i>36.3%</i>	<i>35.8%</i>	<i>36.3%</i>	<i>36.7%</i>	<i>37.2%</i>	<i>37.7%</i>
Nonrecurring Expenses (Income)	50					
EBITDA, adjusted ^[2]	\$ 2,609	\$ 1,632	\$ 1,512	\$ 1,449	\$ 1,361	\$ 1,259
<i>% of Net Sales</i>	<i>10.3%</i>	<i>6.6%</i>	<i>6.0</i>			