

STEPHAN CO  
Form PREC14A  
October 06, 2004

**PROXY STATEMENT IN OPPOSITION TO THE BOARD OF DIRECTORS OF THE STEPHAN CO. BY  
MERLIN PARTNERS, L. P.**

**ANNUAL MEETING OF SHAREHOLDERS (To be held on November 10, 2004)**

Merlin Partners, L.P., a shareholder of The Stephan Co. ( Stephan or the Company ), is sending this proxy statement and the enclosed GREEN proxy card to shareholders of record on ----- 2004 (the Record Date ). We are soliciting a proxy to vote your shares at the 2004 Annual Meeting of Shareholders of Stephan (the Meeting ) and at any and all adjournments or postponements of the Meeting. Please refer to Stephan s proxy soliciting material for additional information concerning the Meeting and the matters to be considered by shareholders including the election of directors.

This proxy statement and the enclosed GREEN proxy card are first being sent to shareholders of Stephan on or about -----, 2004.

**INTRODUCTION**

There are two matters that Stephan has scheduled to be voted upon at the Meeting:

1.

The election of six persons to serve as directors.

2.

Approval of the independent auditors.

With respect to these matters, we are soliciting a proxy to vote your shares FOR the election of our five nominees and one of the board s nominees, Frank F. Ferola (Stephan s Chief Executive Officer, President and Chairman of the Board), and FOR Proposal 2.

## **How Proxies Will Be Voted**

All of the proposals scheduled by Stephan to be voted upon at the Meeting are included on the enclosed GREEN proxy card. If you wish to vote FOR the election of our nominees and/or on any other matters to be considered at the Meeting, you may do so by completing and returning a GREEN proxy card.

If you return a GREEN proxy card to us or to our agent, your shares will be voted on each matter as you indicate. If you do not indicate how your shares are to be voted on a matter, they will be voted FOR the election of our five nominees and if nominated, Frank F. Ferola, Stephan's Chief Executive Officer, President and Chairman of the Board and FOR Proposal 2. If you return a GREEN proxy card, you will be granting the proxy holder(s) discretionary authority to vote on any other matters that may come before the Meeting including matters relating to the conduct of the Meeting. Please refer to Stephan's proxy soliciting material for additional information concerning adjourning the Meeting. We do not intend to propose an adjournment. If an adjournment of the Meeting is proposed, we will vote for or against such adjournment in our discretion.

## **Voting Requirements**

The presence in person or by proxy of at least a majority of Stephan's outstanding shares shall constitute a quorum at the Meeting. Proposal 1 requires the affirmative vote of a plurality of votes cast at the Meeting for approval. Proposal 2 requires the affirmative vote of a majority of votes cast at the Meeting for approval.

## **Revocation of Proxies**

You may revoke any proxy prior to its exercise by (i) delivering a written revocation of your proxy at the meeting; (ii) executing and delivering a later dated proxy; or (iii) voting in person at the Meeting. (Attendance at the Meeting will not in and of itself revoke a proxy.) There is no limit on the number of times you may revoke your proxy prior to the Meeting. Only your latest dated proxy will be counted.

## **Information Concerning the Soliciting Shareholder**

Merlin Partners, L.P., the soliciting shareholder, is a private investment partnership. Ancora Advisors LLC is the General Partner of Merlin Partners, L.P. Richard Barone controls Ancora Advisors and is the portfolio manager of Merlin Partners. Additional information about these entities and other affiliates of Mr. Barone are contained in his

Schedule 13D filings made on July 22, 2004, August 16, 2004 and October 1, 2004 at <http://www.sec.gov/>. The address of Merlin Partners, Ancora Advisors and Mr. Barone is One Chagrin Highlands, 2000 Auburn Drive, Suite 430, Cleveland, OH 44122

As of -----, 2004, Merlin Partners owned ----- shares of Stephan. In addition, Mr. Barone and affiliates of Mr. Barone are deemed to be the beneficial owners of ----- shares of Stephan owned by Mr. Barone's clients (including Merlin Partners). All of Mr. Barone's and Merlin Partners' shares have been purchased since ----- . In addition, Mr. Barone sold a total of ----- shares owned by Merlin Partners or other clients since ----- .

### **REASONS FOR THE SOLICITATION**

We are dissatisfied with the Company's financial performance and corporate governance and are seeking to elect a new slate of nominees to the Board. Specifically, we believe the current Board of Directors attempted to take the Company private at an unfair price that severely undervalued the Company. Also, it negotiated an employment agreement with Mr. Ferola that is disproportionate to Stephan's financial performance and contains an overly generous severance package that is an impediment to a sale of the Company that could maximize shareholder value.

If elected, our nominees will explore alternatives to enhance shareholder value, including, but not limited to (i) payment of a sizable cash distribution to shareholders; (ii) increasing the quarterly dividend rate, (iii) repurchasing Stephan's common stock in the open market; (iv) conducting a self-tender offer; (v) analyzing all strategic options, including retaining the status quo, the sale of certain real estate assets and/or brands, or a sale of the Company and consolidation of operations; and (vi) renegotiation of certain management contracts on more favorable terms for Stephan. There is no guarantee that our nominees, if elected, would be able to enhance shareholder value.

### **PROPOSAL 1: TO ELECT SIX DIRECTORS**

Please refer to Stephan's proxy soliciting material for complete information about this proposal. At the Meeting, we intend to nominate the following five persons for election as directors. In addition, in the absence of contrary instructions, the proxy holder(s) will vote your shares FOR Frank F. Ferola, Stephan's Chief Executive Officer, President and Chairman of the Board, whom the board intends to nominate for election as a Class III director. Each of our nominees has consented to being named in this proxy statement and to serve as a director if elected. None of our nominees has any arrangement or understanding with any person with respect to any future employment by Stephan or by any affiliate of Stephan. None of our nominees owns any shares of Stephan except Mr. Zucker and Mr. Hopkins, who are affiliated with entities controlled by Mr. Barone and who own 301 and 299 shares, respectively. We do not know of any material conflicts of interest that would adversely affect any of our nominees from acting in the best interest of Stephan and we believe that all of our nominees would be considered independent directors if elected.

Phillip Goldstein (Age 59) -- Mr. Goldstein has been an investment advisor since 1992; He has been a director of Brantley Capital Corporation since 2002 and of The Mexico Equity and Income Fund since 1999. (Class I)

David Pawl (Age 56) -- Mr. Pawl is a retired business executive since 2002. From 1997 until 2002, Mr. Pawl was the President of GE Quartz, Inc. (a division of GE Specialty Materials), a subsidiary of General Electric Company ( GE ). Mr. Pawl was made an Officer of GE in conjunction with being named President of GE Quartz in 1997. GE Quartz manufactures materials sold into the semiconductor equipment, fiber optics and lighting markets. In this role, Mr. Pawl was responsible for all sales, marketing and distribution operations of the business. The business employed approximately 1,000 people while reaching \$275 million of annual revenues at its peak in 2000. GE Quartz had four manufacturing facilities during Mr. Pawl s tenure, including three in Ohio and one in Germany. Prior to his role with GE Quartz, Mr. Pawl held numerous operational roles with GE beginning in 1976, including General Manager of Distribution Services for GE Lighting and General Manager of Global Sourcing for GE Lighting. Mr. Pawl holds a Bachelor of Science in Business Administration from State University of New York in Albany. (Class I)

Bradley Zucker (Age 31) -- Mr. Zucker is currently a Vice President and The Chief Financial Officer for all Ancora entities (including Ancora Capital, Inc., Ancora Securities, Inc. and Ancora Advisors, LLC). Before joining Ancora in 2002, Mr. Zucker was the Corporate Controller for International Total Services, a publicly traded international provider of aviation and commercial security services. His responsibilities included managing accounting and finance matters, including various SEC filings. Mr. Zucker was promoted to this position after serving simultaneously as both the Company s International Controller and Acquisition Controller. Prior to joining International Total Services in 1999 Mr. Zucker worked in Ernst & Young, LLC s auditing practice in Cleveland. Mr. Zucker graduated from Emory University with a degree in Accounting. He also holds a Masters in Business Administration from Case Western Reserve University and is a Certified Public Accountant (CPA). (Class II)

Brian Hopkins (Age 28) -- Mr. Hopkins is currently a Vice President and Principal with Ancora Advisors, LLC ( Ancora ), a money management firm based in Cleveland, Ohio. Ancora invests in public equities and fixed income securities for its clients through multiple vehicles, including mutual funds, managed accounts and a private investment partnership. Mr. Hopkins focuses on due diligence of Ancora s new investments and monitoring of active investments. Mr. Hopkins is also the Co-Portfolio Manager of Merlin Partners, L.P., a long/short private investment partnership managed by Ancora. Prior to joining Ancora in 2003, Mr. Hopkins was an Investment Associate with Primus Venture Partners in Cleveland, where he focused on due diligence of potential private equity investments and the monitoring of portfolio investments. Before joining Primus in 2001, Mr. Hopkins worked in the Investment Banking Division of Deutsche Banc Alex. Brown as an Associate in London after completing the Financial Analyst program in Baltimore. Mr. Hopkins graduated with honors from Georgetown University with a degree in Finance and additional concentration in Economics. (Class II)

Chad Arfons (Age 33) Mr. Arfons is currently an attorney at the Cleveland, Ohio office of the law firm of Roetzel & Andress, LPA since 2003. Mr. Arfons focuses his practice on corporate and business services, with an emphasis in banking and finance. Mr. Arfons regularly represents financial institutions and borrowers in secured debt, bond and securitized loan financing and represents investors and syndicates in private placement transactions. From 2001 to 2003, Mr. Arfons served as General Counsel and Operating Manager to Standard Jig Boring Inc., a closely-held manufacturer of precision components for the aerospace, defense and power-generation industries, in which capacities he was responsible for operational, financial and legal decision-making for the company. From 1999 to 2001 Mr.

Arfons was an attorney with Roetzel & Andress in the Akron office. Mr. Arfons is a graduate of Tulane University School of Law and he also graduated with an undergraduate degree from the University of Akron. He is authorized to practice law before the courts of the State of Ohio and the United States Tax Court. (Class III)

## **PROPOSAL 2: TO APPROVE THE INDEPENDENT AUDITORS**

Please refer to Stephan's proxy soliciting material for complete information about this proposal. In the absence of contrary instructions, the proxy holder(s) will vote your shares FOR this proposal.

### **THE SOLICITATION**

Merlin Partners, the soliciting shareholder, is making this solicitation. Persons affiliated with or employed by us or our affiliates may assist us in the solicitation of proxies. They will not receive any special compensation for their services. Banks, brokerage houses and other custodians, nominees and fiduciaries will be requested to forward this proxy statement and the enclosed GREEN proxy card to the beneficial owners of shares of Common Stock for whom they hold shares of record. We will reimburse these organizations for their reasonable out-of-pocket expenses.

In addition, we have hired Phillip Goldstein, one of our nominees for director, to assist us in this solicitation for a success fee of \$25,000 plus out-of-pocket expenses. Mr. Goldstein is not a shareholder of Stephan.

Initially, Merlin Partners will bear all of the expenses related to this proxy solicitation. Because we believe that all shareholders will benefit from this solicitation through an enhanced opportunity to exercise their franchise rights, we intend to seek reimbursement of our expenses from Stephan. Shareholders will not be asked to vote on the reimbursement of our solicitation expenses which we estimate will be \$30,000 if successful and \$5,000 if unsuccessful.

The participants in our proxy solicitation are: Merlin Partners, L.P., Ancora Advisors LLC, Richard Barone, Phillip Goldstein, David Pawl, Bradley Zucker, Brian Hopkins, and Chad Arfons. There is no arrangement or understanding involving us or any of our affiliates or any participant with respect to employment by or any future transaction with Stephan or any of its affiliates.

DATED: -----, 2004

PROXY CARD

**Proxy Solicited in Opposition to the Board of Directors of The Stephan Co. by Merlin Partners, L. P. for the Annual Meeting of Stockholders**

The undersigned hereby appoints Phillip Goldstein and Brian Hopkins and each of them, as the undersigned's proxies, with full power of substitution, to attend the Annual Meeting of Shareholders of The Stephan Co. on November 10,

2004, (the Meeting ), and any adjournment or postponement thereof, and to vote on all matters that may come before the Meeting and any such adjournment or postponement the number of shares that the undersigned would be entitled to vote if present in person, as specified below.

With respect to these matters, we are soliciting a proxy to vote your shares FOR the election of our five nominees and if nominated, Frank F. Ferola, Stephan s Chief Executive Officer, President and Chairman of the Board, and FOR Proposal 2.

(INSTRUCTIONS: Mark votes by placing an x in the appropriate [ ].)

1. ELECTION OF SIX DIRECTORS

FOR PHILLIP GOLDSTEIN

WITHHOLD AUTHORITY

FOR DAVID PAWL

WITHHOLD AUTHORITY

FOR BRADLEY ZUCKER

WITHHOLD AUTHORITY

FOR BRIAN HOPKINS

WITHHOLD AUTHORITY

FOR CHAD ARFONS

WITHHOLD AUTHORITY

FOR FRANK F. FEROLA

WITHHOLD AUTHORITY

2. TO APPROVE THE INDEPENDENT AUDITORS.

FOR

AGAINST

ABSTAIN

**Please sign and date below. Your shares will be voted as directed. If no direction is made, this proxy will be voted AGAINST Proposal 1 and FOR Proposal 2. The undersigned hereby acknowledges receipt of the proxy statement dated -----, 2004 of Merlin Partners L.P. and revokes any proxy previously executed. (Important - Please be sure to enter date.)**

SIGNATURE (S) \_\_\_\_\_ Dated: \_\_\_\_\_