

The Stephan Co.
Annual Report
Year Ended December 31, 2023

Part A General Company Information

Item I The exact name of the issuer and its predecessor (if any).

The Stephan Co.

Item II The address of the issuer's principal executive offices.

7901 4th St. N Ste 300
St. Petersburg
Florida 33702
(800) 637-1996
www.thestephanco.com

Item III The jurisdiction(s) and date of the issuer's incorporation or organization.

Florida, May 29, 1952

Part B Share Structure

Item IV The exact title and class of securities outstanding.

Common Stock (SPCO.PK)
CUSIP: 858603103

Item V Par or stated value and description of the security.

A. Par or Stated Value.

Common Stock
\$0.01 per share par value

Preferred Stock
\$0.01 per share par value

B. Common or Preferred Stock.

Common Stock

\$0.01 per share par value
Dividend: at discretion of board of directors.
Voting: one vote per share, non-cumulative, no preemptive rights.

Preferred Stock

\$0.01 per share par value
Dividends, privileges, rights and limitations: at discretion of board of directors.

Item VI The number of shares or total amount of securities outstanding for each class of securities authorized.

Common Stock

- (i) Period end date: December 31, 2023 and 2022
- (ii) Number of shares authorized: 25,000,000
- (iii) Number of shares issued: 4,754,436 in 2023 and 4,754,436 in 2022
- (iv) Number of shares held in treasury: 647,385 in 2023 and 646,385 in 2022
- (v) Number of shares outstanding: 4,107,051 in 2023 and 4,108,051 in 2022
- (vi) Freely tradable shares (public float): 2,035,230 in 2023 and 1,972,016 in 2022
- (vii) Total number of stockholders of record: 94 (approx.)

Preferred Stock

- (i) Period end date: December 31, 2023 and 2022
- (ii) Number of shares authorized: 1,000,000
- (iii) Number of shares issued: 0
- (iv) Number of shares held in treasury: 0
- (v) Number of shares outstanding: 0
- (vi) Freely tradable shares (public float): 0
- (vii) Total number of beneficial stockholders: 0
- (viii) Total number of stockholders of record: 0

Part C Business Information

Item VII The name and address of the transfer agent.

The name and address of the transfer agent is:

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, NY 11219
(800) 937-5449
(718) 921-8124
info@amstock.com

American Stock Transfer & Trust Company, LLC is regulated by the Securities and Exchange Commission ("SEC") and is audited annually.

Item VIII The nature of the issuer's business.

A. Business Development

- The Stephan Co. (the "Company"), a Florida corporation, was formed in 1952 and was reorganized in 1960 through a merger of the Stephan Cosmetic Corp., a California corporation; Stephan Products, Inc., a Massachusetts corporation; and Stepaco, Inc. a California corporation; into The Stephan Co. The predecessor company of Stephan Products, Inc., one of the merger partners, was organized in Massachusetts in 1897.
- The Company's fiscal and calendar years are the same.
- The Company's Common Stock is quoted on the OTC Pink quotation system maintained by the OTC Markets Group, Inc. There is no established public trading market in the Company's Common Stock.
- In December 2009, the Company voluntarily delisted its Common Stock from the American Stock Exchange and deregistered its Common Stock pursuant to the Exchange Act of 1934.
- The Company has never been in bankruptcy, receivership, or similar proceeding.

- The Company has never defaulted on any note, lease, or other indebtedness or financing arrangement requiring the issuer to make payments.
- There has been no increase in the number of authorized shares of either class of stock in the past five years.
- In the past five years there have been no stock splits or recapitalizations.
- Effective December 31, 2015, the Company went through a reorganization to close out all of its dormant entities. Entities remaining after the reorganization in 2016 were The Stephan Company, Bowman Beauty & Barber Supply, Inc. and Morris Flamingo-Stephan, Inc.
- In September 2017, the Company completed the acquisition of MD Barber Supply, LLC, a distributor of barber supplies and specialized products for the barber and consumer beauty industry.
- In November 2018, the Company purchased inventory, assets, patents and trademarks that are used in connection with the business of the BarberMate Brand through an asset purchase agreement.
- In July 2019, the Company purchased inventory, assets, patents and trademarks that are used in connection with the business of the Stix Fix and Pomade brand through an asset purchase agreement.
- In October 2019, the Company opened a 26,456 sq. ft. new corporate campus in Williamsport, PA to accommodate all its three operating divisions, Bowman Beauty & Barber Supply, Inc, Morris Flamingo-Stephan, Inc and MD barber Supply, LLC, along with the corporate headquarters.
- In May 2020, the Company purchased inventory, assets, patents and trademarks that are used in connection with the business of the Norva Barber Supply from its founders through an asset purchase agreement. The Company incorporated Bowman NBS, Inc a 100% subsidiary of Bowman Beauty & Barber Supply, Inc. to acquire the assets of Norva Barber Supply.
- In October 2021, the Company acquired the assets of 614 Barber Supply, Inc., the leading wholesale barber supply distributor in the Columbus, OH metropolitan area. 614 Barber Supply, Inc., which was formerly known as Columbus Barber & Beauty Wholesale Supply, has a walk-in showroom location in Columbus, OH that includes service and repair, as well as a strong online presence.
- In August 2022, the Company purchased inventory, assets, patents and trademarks that are used in connection with the business of the Appleton Barber Supply through an asset purchase agreement. Operations of Appleton Barber Supply are reported within Bowman NBS, Inc.
- In October 2023, the Company purchased the FMS products brand and inventory through an asset purchase agreement. Operation of FMS products are reported with MD Barber Supply, LLC.

B. Legal Proceedings

The Company has been named in numerous lawsuits related to talc products it previously manufactured, usually as a contract manufacturer for larger brands. In each case, the Company is one of a large number of defendants named. The Company cannot currently estimate the cost of defending itself in these potential lawsuits or the potential legal liability. The Company will vigorously defend itself and believes the cases are without merit. While the expenses to defend the Company could be material, we cannot predict the outcome of this or any other legal contingency.

C. Business of Issuer

1. The Company's SIC Code is 2844.
2. The Company is currently conducting operations.
3. The issuer is not and has never been a "shell company."

Item IX **The nature of products or services offered.**

The Stephan Co. ("we," "our," "Stephan," or the "Company"), is headquartered in Williamsport, Pennsylvania. In October 2019, Company moved headquarters from Tampa, Florida to Williamsport, Pennsylvania and moved the distributions centers situated at different locations to new headquarters in Williamsport.

We have one reportable operating segment, which includes a Master Distributor as well as Distributors of barber and beauty supplies for professionals and consumers. Our Master Distributor segment consists of sales to distributors, schools, correctional institutions and supply stores. Our Distributor segment consist of sales to the barber and beauty professionals for use in the barbershops and salons as well as consumers and end users through various marketplaces.

Distributors

Some of our wholly owned subsidiaries are distributors of our products and third-party products. Morris Flamingo-Stephan, Inc is a Master Distributor of beauty and barber supplies, which markets its products utilizing catalogs featuring owned brands Campbell's, LatherKing, Stephan Barber, BarberMate, Stix Fix, Pomade and SuperCuts, along with other national brands. Catalogs are published under the Morris Flamingo and Williamsport Bowman brand names. Bowman Beauty & Barber Supply, Inc. doing business as Williamsport Bowman Barber Supply, Inc. is a mail order and online barber and beauty supply company. MD Barber Supply, LLC, sells barber supplies and specialized products directly to barbers and consumers through online channels, wholesale accounts, its website and mobile app. Bowman NBS, Inc. doing business as Norva Barber Supply is a wholesale barber distributor selling third party products to barbershops. Bowman NBS, Inc. as does business as Appleton Barber Supply as a wholesale barber distributor selling third party products to barbershops. 614 Barber Supply, Inc. is a wholesale barber supply distributor in the Columbus, OH metropolitan area, and has a walk-in showroom location in Hilliard, OH that includes service and repair. Morris Flamingo-Stephan, Inc., Bowman Beauty & Barber Supply, Inc. and MD Barber Supply, LLC comprise the Distributors segment. Our Distributors generally do not manufacture the products they sell.

FINISHED GOODS

Our subsidiaries in our Distributors segment buy and resell finished products, many of which are purchased from international sources. The Company and its subsidiaries seek to maintain a level of finished goods inventory sufficient to cover anticipated sales levels for an upcoming three months.

BACKLOG

As of December 31, 2023, the Company did not have a large backlog of orders.

RESEARCH AND DEVELOPMENT

There were no research and development expenditures in 2023 or 2022.

COMPETITION

The hair care and personal grooming business is highly competitive. The Company competes against much larger companies with substantially more resources. Additionally, we believe that several factors are contributing to continuing competitive industry conditions: 1) Increased online competition; 2) Soft overall industry conditions given maturing of the barber and beauty markets; 3) Offset to some extent by consolidation in the industry.

We believe that the principal competitive factors are price, service and product quality. Products sold by the Company and its subsidiaries compete with numerous varieties of other such products, many of which bear well known, respected, and heavily advertised brand names and are produced and sold by companies having substantially greater financial, technical, personnel, and other resources than the Company. Our products account for a relatively insignificant portion of the total hair care and personal grooming products manufactured and sold annually in the United States.

GOVERNMENT AND INDUSTRY REGULATION, ENVIRONMENTAL MATTERS

Some of our products are subject to regulation by the Food and Drug Administration, in addition to other federal, state, and local regulatory agencies. The Company believes that its products are in substantial compliance with all applicable regulations. The Company does not believe that compliance with existing or presently proposed environmental standards, practices, or procedures will have a material adverse effect on operations, capital expenditures, or the competitive position of the Company.

EMPLOYEES

As of December 31, 2023, we employed 25 people who were engaged in the warehousing and distribution of products and in the management and administration of the Company's business. Although we do not anticipate the need to hire a significant number of additional employees, the Company believes that any such employees, if needed, would be readily available. The Company believes its employee relationships are satisfactory.

Item X The nature and extent of the issuer's facilities

We operate out of 26,456 sq. ft. combined leased headquarters and distribution space in Williamsport, Pennsylvania. During 2024, we moved out of our facility in Hilliard, OH to a new location. The new location is a 1,500 sq. ft. walk-in showroom in Bethel Center Mall, Columbus, Ohio.

Part D Management Structure and Financial Information

Item XI The name of the chief executive officer, members of the board of directors, as well as control persons.

EXECUTIVE OFFICERS

Benjamin Large served as Chief Executive Officer from December 7, 2019 to October 22, 2023. Mr. Large had served as a board member of Stephan since December 2016 to October 23, 2023. On October 23, 2023 the Company appointed Henry Jacobi as the new CEO of the Company.

BOARD OF DIRECTORS

The Company's By-Laws provide that directors shall be elected at the annual meeting of stockholders and each director elected shall hold office until his successor has been elected and qualified or until his resignation, removal or death. Directors shall be elected by a plurality of the votes cast by the shareholders entitled to vote in the election at a meeting at which a quorum is established. We have not had a Board of Directors election or stockholders meeting since 2005. Our By-Laws provide that the number of directors shall be set from time-to-time by resolution of the Board of Directors and must be a minimum of three.

Set forth below is certain information with respect to the members of the Board of Directors who served during 2023, or are currently members of the Board.

Name	Age (as of 04/10/2024)	Year first elected as a Company Director	Principal Occupation(s) During Past Five Years; Other Directorships
Jad Fakhry	43	2014	Since 2012, Founder and Managing Member of Poplar Point Capital Management LLC. Poplar Point Capital manages a private investment partnership. Appointed as a Board member during March 2014.
Brian Harper, CFA	46	2016	Mr. Harper is a partner and portfolio manager at Inlight Wealth Management, LLC. Prior to joining Inlight Wealth in 2020, Mr. Harper was President of Harper Asset Management, LLC since he founded the firm in 2001. Mr. Harper was elected to The Stephan Co. Board in March 2016, and elected Chairman of the Board in March 2017.
Joel Getz	58	2017	Mr. Getz is Deputy Dean for Alumni, Development and special initiatives at the Yale School of Management Appointed as a Board member during February 2017 and currently serves as Secretary of the Corporation.
Benjamin Large	45	Dec 2016 to Oct 2023	Mr. Large served as Chief Executive Officer of The Stephan Co. from December 7, 2019 to October 23, 2023. Mr. Large had served as a Board member of The Stephan Co. from December 2016 to October 2023.
Henry Jacobi	48	October 2023	On October 23, 2023, the Company named Mr. Jacobi as the Chief Executive Officer of The Stephan Co. Prior to becoming the Chief Executive Officer, Mr. Jacobi was the General Manager of the WPS Core Americas business unit for Brady Corporation.

FAMILY RELATIONSHIPS

No family relationships exist during the years ended December 31, 2023 and 2022.

Item XII Financial Information for the issuer's most recent fiscal period.

See accompanying audited consolidated financial statements.

Item XIII Similar financial information for such part of the two preceding fiscal years as the issuer or the predecessor has been in existence.

Responses to this section are hereby incorporated by reference to filings www.otcmarkets.com (symbol: SPCO.PK).

Item XIV Beneficial Ownership.

The following persons or other entities are beneficial owners of more than 5% of the outstanding Common Stock of the Company:

- Inlight Wealth Management 1175 Peachtree Street NE, Suite 360, Atlanta, GA 30361: 520,631 shares.
- Poplar Point Capital Partners LP, 330 Primrose Road, Suite 400, Burlingame, CA 94010: 1,501,190 shares.
-

Total shares held by the above owners of 5% or more of the Company's outstanding common stock totaled 2,021,821 or 49.2%, of total outstanding shares (4,107,051) at December 31, 2023.

The Company deregistered its securities with the Securities and Exchange Commission under Section 12(g) of The Securities Exchange Act of 1934 on December 28, 2009. As a result, significant stockholders (10% owners of equity securities of the Company), officers and directors are no longer required to file Forms 3, 4 and 5 so it is not possible to know with certainty, the definitive beneficial ownership. As of December 31, 2023, there are 3,986,140 shares approximating 97.1% of total outstanding shares, in "street name" in which it is not possible to determine additional beneficial ownership, if any.

Item XV The name, address, telephone number, and email address of each of the following outside providers that advise the issuer on matters relating to operations, business development, and disclosure:

1. Investment Banker: none
2. Promoters: none
3. Accountant or Auditor:
Accountants – REdge Global Services Pvt. Ltd., 405, Sai paragon Meadows, 4th Street, BEML Layout, Bangalore, KN-560066 - (918) 398-0155
Auditor –DeJoy & Co. CPAs, LLP 280 East Broad Street, Suite 300, Rochester, NY 14604 585-546-1840
4. Public Relations Consultant: none
5. Investor Relations Consultant: none
6. Any other advisor(s) that assisted, advised, prepared, or provided information with respect to this disclosure statement - the information shall include the telephone number and email address of each advisor: none

Item XVI Management's Discussion and Analysis or Plan of Operation.

A. Management's Discussion and Analysis

Liquidity and Capital Resources

We had cash and cash equivalents of approximately \$761,000 at December 31, 2023. Our cash was maintained in FDIC-insured bank accounts and collateralized short-term investments.

Our continuing operations provided net positive cash flows of approximately \$50,000 for the year ended December 31, 2023.

We have adequate liquidity and do not foresee the need for additional capital for day-to-day operations in the next year.

We have no off-balance sheet arrangements.

Results of Operations 2023 v. 2022

Overall revenues for the year ended December 31, 2023 were approximately \$10,582,000 compared to approximately \$10,455,000 for the year ended December 31, 2022 for a net increase in revenue of approximately \$127,000, or 1.2%.

Selling, General, and Administrative expenses increased from 2022 by approximately \$312,000, or 12%. The increase was primarily due to one time consulting expenses and growth initiatives (new website, online advertising, etc) to invest in new customer relationships.

Other income in 2022 includes \$103,000 from the Employee Retention Credit ("ERC"). Under the provision of the CARES Act, the Company is eligible for a refundable ERC. We submitted the claim for the ERC credit for \$138,000 and so far have received \$103,000. The Company is not expecting to collect the additional \$35,000. In April 2022, the Company sold its trademark Lekair for \$25,000 to Afam Concept Inc and entered into a distribution agreement to sell the product as a distributor. Gain from sale of the trademark is included in other income.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

FORWARD-LOOKING STATEMENTS

Certain statements in "Management's Discussion and Analysis or Plan of Operation" and elsewhere in this "Annual Report" constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Reform Act"). Such forward-looking statements involve known and unknown risks, uncertainties, and other factors which may cause our actual results, condition (financial or otherwise), performance, or achievements to be materially different from any future results, performance, condition, or achievements expressed or implied by such forward-looking statements.

Words such as "projects," "believe," "anticipates," "estimate," "plans," "expect," "intends," and similar words and expressions are intended to identify forward-looking statements and are based on our current expectations, assumptions, and estimates about us and our industry. In addition, any statements that refer to expectations, projections, or other characterizations of future events or circumstances are forward-looking statements. Although we believe that such forward-looking statements are reasonable, we cannot assure you that such expectations will prove to be correct.

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

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

Part E Issuance History

Item XVII List of securities offerings and shares issued for services in the past two years.

On May 9, 2022, there were 40,000 shares of common stock issued to the Board of Directors for their services. The grant price of these shares was approximately \$2.16 a share.

Part F Exhibits

Item XVIII Material Contracts

No Material Contracts

Item XIX Articles of Incorporation and Bylaws

The Stephan Co. is a Florida corporation in good standing.

Item XX Purchases of Equity Securities by the Issuer and Affiliated Purchasers

In April 2016, the Company was authorized by its Board of Directors to repurchase shares of its outstanding common stock pursuant to open market transactions for up to 500,000 shares. Through December 31, 2023, the Company had repurchased 306,849 shares of common stock for approximately \$405,000. As of August 1, 2023, the Company resumed its previously announced plan to repurchase up to 500,000 shares on the open market.

Information for the issuer's most recent fiscal period
Pursuant to Item XII Above

**Consolidated Financial Statements and
Report of Independent Auditor**

The Stephan Co.

December 31, 2023 and 2022

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Rochester, New York

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
The Stephan Co.:

Opinion

We have audited the accompanying consolidated financial statements of The Stephan Co. and subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related statements of operations, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

November 1, 2024.

DeJoy & Co. CPAs, LLP

The Stephan Co.
CONSOLIDATED BALANCE SHEETS
At December 31, 2023 and December 31, 2022
(In thousands, except share and per share amounts)

	<u>2023</u>	<u>2022</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 761	\$ 1,163
Accounts receivable, net	136	109
Inventories, net	2,129	2,363
Prepaid expenses and other current assets	134	75
	3,160	3,710
Other assets	2	62
Operating right-of-use assets	154	362
Property and equipment, net	97	132
Deferred tax assets, net	3,461	3,264
Intangible assets, net	986	1,086
Goodwill	1,890	1,890
	1,890	1,890
TOTAL ASSETS	\$ 9,750	\$ 10,506
LIABILITIES & STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	\$ 706	\$ 654
Current portion of operating lease liabilities	155	209
Current portion of loans payable	216	203
Deferred revenue	-	11
	-	11
Total Current Liabilities	1,077	1,077
Long-Term Liabilities		
Operating lease liabilities	-	155
Loans payable	1,051	1,335
	1,051	1,335
Total Long-term Liabilities	1,051	1,490
TOTAL LIABILITIES	2,128	2,567
CONTINGENCIES (Note 14)		
STOCKHOLDERS' EQUITY		
Preferred stock, \$.01 par value; 1,000,000 shares authorized; none issued or outstanding	-	-
Common stock, \$.01 par value; 25,000,000 shares authorized; 4,754,436 and 4,754,436 shares issued at 2023 and 2022, respectively (4,107,051 and 4,108,051 shares outstanding at 2023 and 2022, respectively)	47	47
Additional paid-in capital	18,863	18,863
Accumulated deficit	(10,021)	(9,705)
Treasury stock, at cost (647,385 and 646,385 shares at 2023 and 2022, respectively)	(1,267)	(1,266)
	(1,267)	(1,266)
Total Stockholders' Equity	7,622	7,939
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$ 9,750	\$ 10,506

See Notes to Consolidated Financial Statements.

The Stephan Co.
CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 2023 and December 31, 2022
(in thousands, except share and per share data)

	<u>2023</u>	<u>2022</u>
Revenue, net	\$ 10,582	\$ 10,455
Cost of revenue	7,934	7,821
Gross profit	2,648	2,634
Selling, general, and administrative expenses	2,820	2,508
Depreciation and amortization	192	185
Operating loss	(364)	(59)
Government grant income	-	103
Gain on sale of intangible asset	-	25
Other income (expense), net	14	(24)
Interest income	34	1
Interest expense	(72)	(50)
Loss from operations before income taxes	(388)	(4)
Income tax benefit (expense)	195	(18)
NET LOSS	<u>\$ (193)</u>	<u>\$ (22)</u>
Per common share:		
Basic and diluted net loss	<u>\$ (0.05)</u>	<u>\$ (0.01)</u>
Net loss	\$ (0.05)	\$ (0.01)
Weighted Average Common Shares Outstanding:		
Basic	4,107,634	4,094,718
Diluted	4,107,634	4,094,718

See Notes to Consolidated Financial Statements.

The Stephan Co.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended December 31, 2023 and December 31, 2022

(in thousands, except share information)

	<u>Shares Issued</u>	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Treasury Stock</u>	<u>Total Stockholders' Equity</u>
Balance at January 1, 2022	4,714,436	\$ 47	\$ 18,777	\$ (9,683)	\$ (1,266)	\$ 7,875
Stock-based compensation	40,000	-	86	-	-	86
Net loss	-	-	-	(22)	-	(22)
Balance at December 31, 2022	<u>4,754,436</u>	<u>47</u>	<u>18,863</u>	<u>(9,705)</u>	<u>(1,266)</u>	<u>7,939</u>
Dividend paid	-	-	-	(123)	-	(123)
Repurchase of common stock	-	-	-	-	(1)	(1)
Net loss	-	-	-	(193)	-	(193)
Balance at December 31, 2023	<u><u>4,754,436</u></u>	<u><u>\$ 47</u></u>	<u><u>\$ 18,863</u></u>	<u><u>\$ (10,021)</u></u>	<u><u>\$ (1,267)</u></u>	<u><u>\$ 7,622</u></u>

See Notes to Consolidated Financial Statements.

The Stephan Co.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2023 and December 31, 2022
(in thousands)

	<u>2023</u>	<u>2022</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
NET LOSS	\$ (193)	\$ (22)
Adjustments to reconcile net loss to net cash flows provided by operating activities:		
Depreciation and amortization	192	185
Deferred income tax benefit	(197)	(42)
Stock-based compensation	-	86
Gain on sale of intangible asset	-	(25)
Non-cash lease expense	(1)	2
Changes in operating assets & liabilities:		
Accounts receivable, net	(27)	104
Inventories, net	234	172
Prepaid expenses and other current assets	1	5
Accounts payable and accrued expenses	52	(218)
Deferred revenue	(11)	11
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	50	258
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Cash paid for asset purchase	(35)	(350)
Purchases of property and equipment	(22)	(16)
Proceeds from sale of intangible asset	-	25
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(57)	(341)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Borrowings on loans payable	-	680
Dividend paid	(123)	-
Principal payments on loans payable	(271)	(123)
Repurchase of common stock	(1)	-
NET CASH FLOWS (USED IN) PROVIDED BY FINANCING ACTIVITIES	(395)	557
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(402)	474
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,163	689
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 761	\$ 1,163
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	\$ 72	\$ 36
Cash paid for taxes	\$ 15	\$ 80

See Notes to Consolidated Financial Statements.

The Stephan Co.

**NOTES TO CONSOLIDATED FINANCIAL
STATEMENTS**

DECEMBER 31, 2023 AND 2022

NOTE 1: DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS: The Stephan Co. and its wholly owned subsidiaries (the “Company”) are engaged in the distribution of grooming products to the barber industry principally throughout the United States.

USE OF ESTIMATES: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States (“U.S. GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. These estimates include assessing the collectability of accounts receivable, realization of deferred income tax assets, the useful lives of long-lived assets, the valuation and useful lives of intangible assets and goodwill, inventory reserves and valuation of lease assets and liabilities. Although these estimates are based on management's knowledge of current events, and those it may undertake in the future, they may ultimately differ from actual results.

PRINCIPLES OF CONSOLIDATION: The consolidated financial statements include the accounts of The Stephan Co. and its wholly owned subsidiaries: Bowman Beauty & Barber Supply, Inc. (“Bowman”), Morris Flamingo-Stephan, Inc. (“Morris Flamingo”), MD Barber Supply, LLC (“MD”), Bowman NBS, Inc. (“NBS”) and 614 Barber Supply, Inc. (“614”). All significant intercompany balances have been eliminated in consolidation.

GOODWILL: The Company followed accounting guidance under Accounting Standards Codification (“ASC”) Topic 350, *Intangibles – Goodwill and Other*, that allows an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived asset is impaired before determining whether it is necessary to perform the more detailed quantitative impairment test. The evaluation considers relevant factors and circumstances such as general macroeconomic conditions, industry and market conditions, changes in cost factors, overall financial performance, and entity and reporting unit specific events. For the years ended December 31, 2023 and 2022, the qualitative factors assessment did not suggest impairment.

IMPAIRMENT OF LONG-LIVED ASSETS OTHER THAN GOODWILL: The Company periodically evaluates whether events or circumstances have occurred that would indicate that long-lived assets may not be recoverable or that their remaining useful lives may be impaired. When such events or circumstances are present, the Company assesses the recoverability of long-lived assets by determining whether the carrying value will be recovered through the expected undiscounted future cash flows resulting from the use of the asset. If the results of this testing indicate an impairment of the carrying value of the asset, an impairment loss equal to the excess of the asset's carrying value over its fair value is recorded. The long-term nature of these assets requires the projection of their associated cash flows and then the discounting of these projected cash flows to their present value. For years ended December 31, 2023 and 2022, there was no impairment of long-lived assets.

CONCENTRATION RISK: One supplier accounted for approximately 10% of materials included in cost of revenue for the year ended December 31, 2023. There were no amounts in accounts payable to this supplier as of December 31, 2023. Three suppliers accounted for approximately 38% of materials included in cost of revenue for the year ended December 31, 2022. Accounts payable to these suppliers totaled approximately \$144,000 as of December 31, 2022.

CONCENTRATION OF CREDIT RISK: The Company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral. The Company does not believe that its customers' credit risks represent a material risk of loss to the Company. When goods are ordered from other countries, some foreign manufacturers require a deposit at the time of order.

STOCK-BASED PAYMENTS: The Company recognizes costs related to all stock-based payments, including stock options, restricted stock awards, deferred stock awards and other stock-based awards, based upon their fair value at the grant date (see Note 13). Stock-based compensation awards are expensed ratably on a straight-line basis over the requisite service or vesting period.

REVENUE RECOGNITION: Revenue is recognized based on the Company's satisfaction of its performance obligation to its customers. Revenue is shown after deductions for payment and volume discounts and returns. The Company estimates that these discounts and returns approximate between 3% and 5% of gross revenue. The Company additionally participates in various promotional activities in conjunction with its retailers and distributors, primarily through the use of discounts, new warehouse allowances, slotting allowances, co-op advertising and periodic price reduction programs. These allowances totaled \$11,000 as of December 31, 2023 and 2022.

Accounts receivable – Net accounts receivable were approximately \$136,000, \$109,000, and \$213,000 as of December 31, 2023, 2022, and 2021, respectively. Accounts receivable are stated in the amount management expects to collect from outstanding balances. Management evaluates the collectability of its accounts receivable based on a combination of factors. In circumstances when the Company becomes aware of a specific customer's inability to meet its financial obligations, it records a specific reserve to reduce the amounts recorded to what it believes will be collected. For all other customers, an allowance is recorded based on historical losses, existing economic conditions, and reasonable and supportable forecasts. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. Based on the information available to management, the Company believes the allowance for expected credit losses of approximately \$18,000, \$11,000, and \$55,000 as of December 31, 2023, 2022 and 2021, respectively, are adequate.

Performance obligations – A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account under ASC Topic 606, *Revenue from Contracts with Customers*. The transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The Company's revenue is recognized at the point in time when control of the distinct goods are transferred to the customer. The performance obligation is satisfied either upon shipment or upon arrival at the customer location, depending on the specific arrangement with the customer.

Practical expedient – The Company elected to treat similar contracts as part of a portfolio of contracts. The contracts have the same provision terms and management has the expectation that the result will not be materially different from the consideration of each individual contract.

Government grant income – The Company recognizes government grant income when it has substantially met the eligibility conditions of the related grant program and received the funds.

Contract liabilities – Contract liabilities represent amounts received from customers prior to satisfaction of the related performance obligation under the contract. Contract liabilities are reported as deferred revenue in the accompanying consolidated balance sheets. Deferred revenue was approximately \$11,000 as of December 31, 2022. The Company did not have deferred revenue as of December 31, 2023 or December 31, 2021.

ADVERTISING EXPENSES: The Company expenses all advertising costs as incurred. Total advertising costs for the years ended December 31, 2023 and 2022 were approximately \$136,000 and \$165,000, respectively, and are included in selling, general, and administrative expenses in the accompanying consolidated statements of operations.

COST OF REVENUE: Cost of revenue includes the cost of raw materials, packaging, direct labor and applicable direct and indirect overhead costs.

SHIPPING AND HANDLING COSTS: Expenses for shipping and handling were approximately \$1,047,000 and \$1,084,000 for the years ended December 31, 2023 and 2022, respectively, and were included in cost of revenue in the consolidated statements of operations.

CASH AND CASH EQUIVALENTS / CONCENTRATION OF RISK: Cash and cash equivalents include cash and money market placements. The Company had most of its cash deposited with various financial institutions and was subject to Federal Deposit Insurance Corporation ("FDIC") insurance.

INVENTORIES: Inventories are stated at the lower of cost (determined on the average cost basis) or net realizable value.

PROPERTY AND EQUIPMENT: Property and equipment are recorded at cost. Routine repairs and maintenance are expensed as incurred. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets as follows:

	<u>Years</u>
Machinery and equipment	3-7
Furniture and office equipment	3-5
Software and website development cost	3-10

INCOME TAXES: The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial reporting basis and tax basis of assets and liabilities. Valuation allowances, if any, are provided when a portion or all of a deferred tax asset may not be realized. Deferred tax assets and liabilities are included in the consolidated financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

BASIC AND DILUTED EARNINGS PER SHARE: Basic and diluted earnings per share are computed by dividing net income or loss by the weighted average number of shares of common stock outstanding. At December 31, 2023, the Company has outstanding options for 100,000 shares (Note 13). At December 31, 2022, the Company had no outstanding options.

LEASES: The Company determines if an arrangement is or contains a lease at inception. The Company records right-of-use ("ROU") assets and lease liabilities, which are initially based on the discounted future minimum lease payments over the term of the lease. As the rate implicit in leases is not easily determinable, the applicable risk-free rate is used in determining the present value of lease payments.

Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise the option. For leases with an initial term of 12 months or less, no ROU asset or lease liability is recorded on the consolidated balance sheets and the short-term lease expense for any such lease is recorded on a straight-line basis over the lease term.

For a majority of all classes of underlying assets, the Company accounts for lease components and non-lease components as a single lease component. Certain real estate leases require the Company to pay maintenance, insurance, utilities, and real estate taxes, which are expensed as incurred.

Operating lease expense is recognized on a straight-line basis over the lease term. Variable payments and short-term rentals are expensed as incurred.

PRIOR PERIOD RECLASSIFICATIONS: Certain reclassifications have been made to the prior year consolidated financial statements to conform to the current year presentation.

NOTE 2: NEW ACCOUNTING STANDARD

The Company adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") No. 2016-13, Financial Instruments - Credit Losses ("ASU 2016-13"), which modifies the measurement of expected credit losses on certain financial instruments. The Company adopted ASU 2016-13 as of January 1, 2023 using the modified retrospective approach. The adoption of ASU 2016-13 did not have a material impact on the Company's consolidated financial statements.

NOTE 3: BUSINESS/ ASSETS ACQUISITIONS

In October 2023, the Company purchased inventory, patents, and trademarks for the FMS product brands through an asset purchase agreement. In consideration, the Company paid \$54,000 that included the purchase of \$19,000 worth of inventory. The Company evaluated the asset purchase agreement based on ASC Topic 805 – *Business Combinations* and determined that the transaction was an asset acquisition. As such, \$35,000 was recorded as amortizable intangible assets with a weighted average amortizable period of approximately 10 years.

In August 2022, the Company purchased inventory, patents, and trademarks that are used in connection with the business of an entity that was doing business as Appleton Barber Supply through an asset purchase agreement. In consideration, the Company paid \$769,000 that included the purchase of \$419,000 worth of inventory. The Company evaluated the asset purchase agreement based on ASC Topic 805 – *Business Combinations* and determined that the transaction was an asset acquisition. As such, \$350,000 was recorded as amortizable intangible assets with a weighted average amortizable period of approximately 10 years.

NOTE 4: ACCOUNTS RECEIVABLE

At December 31, 2023 and 2022, the gross carrying amount of trade accounts receivable was approximately \$154,000 and \$120,000, respectively. The reserve for expected credit losses was approximately \$18,000 and \$11,000 at December 31, 2023 and 2022, respectively.

NOTE 5: INVENTORIES

Inventories consist of the following at December 31:

<i>(in thousands)</i>	<u>2023</u>	<u>2022</u>
Raw materials	\$ 35	\$ 36
Finished goods	<u>2,094</u>	<u>2,327</u>
Total inventories, net	<u>\$ 2,129</u>	<u>\$ 2,363</u>

Raw materials include surfactants, chemicals and fragrances sourced by the Company and provided to its contracted manufacturer. This also includes packaging materials such as outer boxes and cartons used for shipping, as well as components consisting of bottles or containers (plastic or glass), jars, caps, pumps, and similar materials that will become part of the finished product. Finished goods also include hairdryers, electric clippers, lather machines, scissors, and salon furniture. The aforementioned inventory values are net of inventory obsolescence reserves of \$62,000 and \$157,000 as of December 31, 2023 and 2022, respectively.

NOTE 6: PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

<i>(in thousands)</i>	<u>2023</u>	<u>2022</u>
Machinery and equipment	\$ 405	\$ 390
Software and website development cost	294	291
Furniture and office equipment	<u>162</u>	<u>158</u>
Total cost	861	839
Accumulated depreciation	<u>(764)</u>	<u>(707)</u>
Property and equipment, net	<u>\$ 97</u>	<u>\$ 132</u>

Depreciation expense was approximately \$57,000 and \$67,000 for the years ended December 31, 2023 and 2022, respectively.

NOTE 7: INTANGIBLE ASSETS

Intangible assets consists of the following at December 31:

<i>(In thousands)</i>	<u>Estimated Useful Lives</u>	<u>2023</u>	<u>2022</u>
Intangible Assets	10 Years	\$ 1,383	\$ 1,348
Less Accumulated Amortization		<u>(397)</u>	<u>(262)</u>
		<u>\$ 986</u>	<u>\$ 1,086</u>
Non amortizing goodwill		<u>\$ 1,890</u>	<u>\$ 1,890</u>

Amortization expense totaled approximately \$135,000 and \$118,000 during the years ended December 31, 2023 and 2022, respectively. Future amortization of intangible assets as of December 31, 2023 is expected to be as follows:

<u>Years Ending December 31,</u>	<i>(In thousands)</i>
2024	\$ 138
2025	138
2026	138
2027	122
Thereafter	450
	<u>\$ 986</u>

NOTE 8: ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following at December 31:

<i>(in thousands)</i>	<u>2023</u>	<u>2022</u>
Accounts payable	\$ 431	\$ 570
Accrued expenses	201	3
Taxes payable	41	39
Accrued payroll	13	16
Accrued returns	11	11
Accrued vacation	<u>9</u>	<u>15</u>
Total accounts payable and accrued expenses	<u>\$ 706</u>	<u>\$ 654</u>

NOTE 9: LOANS PAYABLE

During August, 2022, The Stephan Co. subsidiary, NBS, received a term loan for \$680,000 from M&T Bank. The term loan is payable in equal monthly installments of \$10,077, including interest at 6.34% through August 2029. The proceeds of the loan were used for the acquisition of Appleton Barber Supply. The loan is secured by substantially all assets of the subsidiary and the continuing guarantees of certain subsidiaries of The Stephan Co., and it is subject to prepayment penalties.

The Stephan Co. subsidiary, 614, has a term loan for \$595,000 with M&T Bank. The term loan is payable in equal monthly installments of \$10,940, including interest at 3.94% through October 2026. The proceeds of the loan were used for the acquisition of 614 Barber Supply, Inc. The loan is secured by substantially all assets of the subsidiary and the continuing guarantees of certain subsidiaries of The Stephan Co., and it is subject to prepayment penalties.

Three of The Stephan Co. subsidiaries individually have loans with the Small Business Administration under its Economic Injury Disaster Loan (“EIDL”) assistance program. The aggregate principal amount of the EIDL loans were approximately \$383,000. The loans are payable in equal monthly installments of \$1,865, including interest at 3.75% through July 2050. Installment payments began approximately twelve months from the date the EIDL loans were received by the subsidiaries. The loans are secured by the subsidiaries’ deposit accounts, inventory and equipment.

Minimum future principal payments for the EIDL loans and term loans from M&T Bank outstanding as of December 31, 2023 are as follows:

<u>Year Ending December 31:</u>	<u>(In thousands)</u>
2024	\$ 216
2025	230
2026	220
2027	120
2028	111
Thereafter	370
	<u>\$ 1,267</u>

NOTE 10: LINE OF CREDIT

The Stephan Co. subsidiary, Bowman, has a business access line of credit note (the “Line”) with M&T Bank for maximum borrowings of \$400,000. The borrowings bear interest at the prime rate plus 1.5%. The prime rate as of December 31, 2023 was 8.50%. The Company had no outstanding balances on the Line as of December 31, 2023 and 2022. The Line is secured by all of the Company’s cash deposits, securities and instruments that are in the possession of M&T Bank.

NOTE 11: INCOME TAXES

Benefit from (provision for) income taxes consists of the following for the years ended December 31:

<i>(in thousands)</i>	<u>2023</u>	<u>2022</u>
Current:		
Federal	\$ -	\$ -
State	(2)	(60)
	<u>(2)</u>	<u>(60)</u>
Deferred:		
Federal	156	42
State	41	-
	<u>197</u>	<u>42</u>
Total	<u>\$ 195</u>	<u>\$ (18)</u>

Deferred income taxes reflect the net tax effects of temporary differences (items recognized for tax returns and consolidated financial statements in different years). Deferred income tax assets and liabilities are comprised of the following at December 31:

<i>(in thousands)</i>	2023	2022
Deferred income tax assets:		
Net operating loss carryover	\$ 3,547	\$ 3,361
Inventory obsolescence reserve	17	45
Stock-based compensation	6	6
Other	29	5
Deferred income tax assets	3,599	3,417
Deferred income tax liabilities:		
Goodwill	(97)	(99)
Property and equipment depreciation	(41)	(53)
Other	-	(1)
Deferred income tax liabilities	(138)	(153)
Net deferred income tax assets	\$ 3,461	\$ 3,264

The benefit from (provision for) income taxes in 2023 and 2022 is comprised of current federal and state income taxes due to those states prohibiting the filing of consolidated tax returns. A reconciliation of the benefit from (provision for) income taxes computed by applying the statutory United States federal income tax rate and the benefit from (provision for) income taxes reflected in the accompanying consolidated statements of operations is as follows for the years ended December 31:

<i>(in thousands)</i>	2023	2022
Benefit from at federal statutory rate	\$ 81	\$ 1
State benefit (provision), net of federal benefit	104	(23)
Other	10	4
Total	\$ 195	\$ (18)

In assessing the realizability of the deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which the temporary differences representing net future deductible amounts become deductible.

The Company has net operating loss carryforwards of approximately \$16 million for federal income tax purposes available to offset future taxable income. The utilization of these net operating losses to reduce future taxable income will depend on the ability of the Company to generate sufficient taxable income. A majority of the Company's net operating losses were generated prior to the Tax Cut Jobs Act of 2017, which was effective for 2018. As such, these net operating losses are subject to expiration beginning in 2026.

The Company is subject to U.S. federal and/or state examinations by tax authorities for up to five years. During the periods open to examination, the Company has Net Operating Losses ("NOLs") for U.S. federal and state tax purposes that have attributes from closed periods. Since these NOLs and tax credit carryover may be utilized in future periods, they remain subject to examination. The Company did not have significant amounts of interest or penalties in the years presented.

NOTE 12: LEASES

The Company leases 26,456 sq. ft. of office space in Williamsport, PA for a monthly payment of \$13,779 and the lease term will expire on September 30, 2024. There are two additional five year renewal options remaining. Beginning in October 2021, the Company also leased a 3,861 sq. ft. walk-in showroom in Hilliard, OH for a monthly payment of \$3,679 and the rent increases by 3% every October. The lease term expired in August 2024. The Company signed a new lease for a new location in Columbus, Ohio (see Note 16). The Company pays for maintenance, insurance, utilities, and real estate taxes related to these leased facilities. As of December 31, 2023, the lease agreements have remaining terms ranging from 0.67 to 0.75 years.

The components of lease expense are as follows for the years ended December 31:

<i>(in thousands)</i>	2023	2022
Operating lease cost	\$ 211	\$ 211
Short-term/variable lease cost	10	15
Total	\$ 221	\$ 226

Cash paid for amounts included in the measurement of lease liabilities was approximately \$210,000 and \$209,000 for the years ended December 31, 2023 and 2022, respectively.

Future maturities of operating lease liabilities are approximately as follows:

<u>Year Ending December 31:</u>	<i>(In thousands)</i>
2024	\$ 156
Less - imputed interest	(1)
Operating lease liabilities	155
Less - current portion	(155)
Long-term portion	\$ -

The weighted-average remaining lease term was 0.73 and 1.73 years for the years ended December 31, 2023 and 2022, respectively. The weighted-average discount rate was 1.04% for operating leases as of December 31, 2023 and 2022.

NOTE 13: CAPITAL STOCK AND STOCK INCENTIVE PLANS

a) Preferred stock

1,000,000 shares of preferred stock, \$0.01 par value, are authorized; however, none have been issued. Rights, designations, preferences, and limitations of the preferred stock are subject to the Board of Directors upon issuance.

b) Key Employee Stock Incentive Plan

In 2020, the stockholders of the Company approved the 2020 Key Employee Stock Incentive Plan (the "Employee Stock Plan"), which reserved a maximum of 400,000 shares to be available under the Employee Stock Plan. Eligibility to the Employee Stock Plan is for officers and other key employees of the Company or any subsidiary (but excluding members of the Board of Directors and any director who receives options under a directors' stock option plan) who at the time of the grant are employed by the Company or any subsidiary. Shares can be awarded in the form of stock options, restricted stock, deferred stock, or other stock-based awards.

Stock-based compensation cost for a stock option shall be determined by the Board of Directors at the time of the grant, but shall not be less than 100% of the fair value as calculated using the average bid and asked prices for the common stock on the last preceding day for which such quotations are reported by the National Association of Securities Dealers Automated Quotations in the over-the-counter market. The term of each stock option shall be fixed by the Board of Directors, but shall not be more than ten years after which the option is granted. The stock options shall be exercisable at such time or times and subject to such terms and conditions as determined by the Board of Directors at the time of being granted.

On October 23, 2023, the Board of Directors named Henry Jacobi as the Chief Executive Officer of the Company and in connection with his employment, Mr. Jacobi was issued 100,000 options of The Stephan Co. common shares. The options will vest over a four year period with ¼ vesting at each anniversary date of his employment commencement.

The following key assumptions were used to determine the grant date fair value of the stock options issued during the year ended December 31, 2023:

Expected volatility rate	22.32%
Risk-free interest rate	4.86%
Expected lives	6 years

The expected volatility rate was based on an analysis of the historical volatility of the Company's stock price on the Over the Counter market. The risk-free interest rate for the expected life of the options was based on the U.S. Treasury yield curve. The expected lives for options ranged from five to ten years.

The following is a summary of the status of the Company's non-vested stock options during the year ended December 31, 2023:

	Number of Units	Grant Date Fair Value per Unit
Non-vested - beginning of year	-	\$ -
Granted	100,000	1.26
Vested	-	-
Cancelled	-	-
Non-vested - end of year	<u>100,000</u>	<u>\$ 1.26</u>

The weighted average remaining contractual term for stock options is four years at December 31, 2023.

At December 31, 2023, there is approximately \$58,000 of total unrecognized compensation cost related to unvested stock options that is expected to be recognized over a period of four years.

There were no options issued during the year ended December 31, 2022.

Stock-based compensation cost for restricted stock shall be determined by the Board of Directors at the time of the grant. The Board of Directors shall determine eligible persons, the number of shares awarded, the price to be paid by the recipient, the times within which such awards may be subject to forfeiture, the vesting schedule and rights of acceleration and all other terms and conditions of the award. There was no restricted stock issued during the years ended December 31, 2023 and 2022 and there was no restricted stock outstanding as of December 31, 2023 and 2022.

Stock-based compensation cost for deferred stock shall be determined by the Board of Directors at the time of the grant. The Board of Directors shall determine eligible persons, the time or times at which deferred stock shall be awarded, the number of shares to be awarded, the duration of the period and the terms under which, receipt of the stock will be deferred and all other terms and conditions of the award. There was no deferred stock issued during the years ended December 31, 2023 and 2022 and there was no deferred stock outstanding as of December 31, 2023 and 2022.

Stock-based compensation cost for other stock-based awards shall be determined by the Board of Directors at the time of the grant. The Board of Directors shall determine eligible persons, the number of shares awarded, the time or times at which shares shall be awarded and all other terms and conditions of the award. There was no other stock-based awards issued during the years ended December 31, 2023 and 2022 and there was no other stock-based awards outstanding as of December 31, 2023 and 2022.

In the event of a change of control, all stock options that have been outstanding for at least six months shall become exercisable in full until they expire pursuant to its terms. All restrictions and deferral limitations contained in restricted stock awards, deferred stock awards and other stock-based awards granted under the Employee Stock Plan shall lapse upon a change of control.

c) Directors Incentive Share Plan

The 2018 Directors Incentive Share Plan (the "Incentive Plan") provides for annual common stock option grants to non-employee directors. The Incentive Plan reserved 200,000 shares to be available to be issued under the Incentive Plan. Eligible for the Incentive Plan are directors of the Company who may be selected from time to time by the Board of Directors. A member of the Board of Directors shall be eligible for awards under the Incentive Plan even if such member is also an employee of the Company. Such options are granted on the earlier of June 30 or the date of the Company's Annual Meeting of Stockholders, at the fair market value at the date of grant. Shares granted under the Incentive Plan may vest immediately or over the terms of periods not to exceed three years, at the discretion of the Board of Directors. There was no stock granted under the Incentive Plan during the year ended December 31, 2023. During the year ended December 31, 2022, there were 40,000 shares granted to directors at a value of \$2.16 per share which vested immediately. The stock-based compensation expense related to these grants was \$86,400 for the year ended December 31, 2022 and is included in selling, general, and administrative expenses in the accompanying consolidated statement of operations.

NOTE 14: CONTINGENCIES

The Company has been named in more than 100 lawsuits related to asbestos contaminated talc products it previously manufactured, usually as a contract manufacturer for larger brands. In each case, the Company is one of a large number of defendants named. The Company cannot currently estimate the cost of defending itself in these potential lawsuits or the potential legal liability. The Company will vigorously defend itself and believes the cases are without merit. While the expenses to defend the Company could be material, the Company cannot predict the outcome of this or any other legal contingency and the Company's insurance carriers have agreed to fund a significant portion of the Company's current expenses.

NOTE 15: GOVERNMENT GRANT INCOME

The CARES Act provides employers a fully refundable tax credit known as the Employee Retention Credit (the "ERC") against the employer share of certain employment taxes based on qualified wages paid to employees during certain quarters of the year ended December 31, 2020. The Company met the qualifications of the ERC and has recognized government grant income of approximately \$103,000 during the year ended December 31, 2022.

NOTE 16: SUBSEQUENT EVENTS

Subsequent events were evaluated through November 1, 2024, in connection with the preparation of these consolidated financial statements, which is the date the consolidated financial statements were available to be issued.

During April 2024, the Company renewed its Williamsport, PA lease which has approximately \$864,000 of future payments. There is one additional five year renewal option.

During June 2024, the Company signed a lease for a facility in Columbus, OH which has approximately \$175,000 of future payments. This lease has an initial term of five years with an additional five year renewal option.

On July 30, 2024, The Stephan Co. approved a special dividend of 3 cents per share to shareholders with a record date of August 16, 2024.