

The Stephan Co.
Annual Report
Year Ended December 31, 2021

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.

2211 Reach Road
Williamsport,
Pennsylvania 17701
(800) 545-5300
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, 2021 and 2020
- (ii) Number of shares authorized: 25,000,000
- (iii) Number of shares issued: 4,714,436 in 2021 and 4,714,436 in 2020
- (iv) Number of shares held in treasury: 646,385 in 2021 and 646,385 in 2020
- (v) Number of shares outstanding: 4,068,051 in 2021 and 4,068,051 in 2020
- (vi) Freely tradable shares (public float): 1,995,530 in 2021 and 2,007,478 in 2020
- (vii) Total number of stockholders of record: 102 (approx.)

Preferred Stock

- (i) Period end date: December 31, 2021 and 2020
- (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 shares of either class of stock in the past five years.
- In the past five years there have been no stock splits, stock dividends, 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 are 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, Bomwan 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 and Barber Supply, Inc to acquire the assets of Norva.
- 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 and Beauty Supply, has a walk-in showroom location in Hilliard, OH that includes service and repair, and a rapidly growing online presence.

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 its 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. 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. Norva is 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 and 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, 2021, the Company did not have a large backlog of orders.

RESEARCH AND DEVELOPMENT

There were no research and development expenditures in 2021 or 2020.

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

Certain 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, 2021, we employed 29 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. We also have a 3,861 sq. ft. walk-in showroom in Hilliard, 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. Please refer to Note 14 of the attached consolidated financial statements for details.

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 shares 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 2021, or are currently members of the Board.

Name	Age (as of 10/15/2023)	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 is the Managing Member of Nutmeg Investments, LLC. He has experience working with companies to improve their operating results and corporate governance. He has previous experience in the aerospace field as an electrical engineer responsible for designing satellite programs. 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. since December 2016 to October 2023.

FAMILY RELATIONSHIPS

No family relationships exist during the years ended December 31, 2021 and 2020.

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

See accompanying audited consolidated financial statement.

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.otcm Markets.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: 532,530 shares.

- Poplar Point Capital Partners LP, 330 Primrose Road, Suite 400, Burlingame, CA 94010: 1,470,290 shares.

Total shares held by the above owners of 5% or more of the Company's outstanding common stock totaled 2,002,820 or 49.2%, of total outstanding shares (4,068,051) at December 31, 2021.

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, 2021, there are 3,974,241 shares approximating 97.7% 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 – REEdge 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 \$689,000 at December 31, 2021. Our cash was maintained in FDIC-insured bank accounts and collateralized short-term investments.

Our continuing operations provided net negative cash flows of approximately \$146,000 for the year ended December 31, 2021. During 2021, the Company received a loan of \$595,000 to fund the acquisition of 614 Barber Supply, Inc. Total consideration paid for the acquisition was \$875,000. Refer to Note 3 of the attached consolidated financial statements for details

On February 4, 2021, The Stephan Co. subsidiaries received a loan under the U.S. Small Business Administration's Payroll Protection Program (PPP2) of \$85,329. This loan was used for payroll, medical insurance premiums, rent and utilities in accordance with rules for loan forgiveness. On July 23, 2021, Company received full forgiveness for the loan amount.

We have adequate liquidity and do not foresee the need for additional capital for day-to-day operations in the next year. However, the Company has been impacted by the outbreak of the novel coronavirus (COVID-19) and a sustained closure of our customers and suppliers would continue to affect our business negatively and could impair our liquidity.

We have no off-balance sheet financing arrangements except for operating leases primarily related to our Distributors segment.

Results of Operations 2021 v. 2020

Overall revenues for the year ended December 31, 2021 were approximately \$9,226,000 compared to approximately \$8,982,000 for the year ended December 31, 2020 for a net increase in revenue of approximately \$244,000, or 2.7%.

Selling, General, and Administrative expenses increased from 2020 by approximately \$148,000, or 7%, primarily driven by the addition of 614 Barber Supply, Inc. and increased marketing spend as we promote the brands in different marketplaces. Additionally, growth initiatives (new website, online advertising, etc) caused our expenses to increase as the business continues to invest in new customer relationships.

Other Income in 2021 includes loan forgiveness amount. The Stephan Co. subsidiaries received a loan under the U.S. Small Business Administration's Payroll Protection Program of approximately \$300,000. These loans were used for payroll, medical insurance premiums, rent and utilities in accordance with rules for loan forgiveness. The Company received full forgiveness for the loan amounts.

Off-Balance Sheet Arrangements

The Company's primary off-balance sheet liabilities consist of its operating leases related to its Distributor businesses.

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.otcm Markets.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.

Neither Common nor Preferred Shares were issued for services in the last two years.

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, 2021, the Company had repurchased 305,849 shares of common stock for approximately \$404,000.

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

**Consolidated Financial Statements and
Independent Auditors' Report**

The Stephan Co.

December 31, 2021 and 2020

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Rochester, New York

INDEPENDENT AUDITORS' REPORT

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

Opinion on the 2021 Consolidated Financial Statements

We have audited the consolidated financial statements of The Stephan Co. and its subsidiaries (the "Company"), which comprise the consolidated balance sheet as of December 31, 2021, and the related consolidated statements of income, stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion on the 2021 Consolidated Financial Statements

We conducted our audit 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 2021 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter - 2020 Consolidated Financial Statements

The consolidated financial statements of the Company for the year ended December 31, 2020, were audited by another auditor, who expressed an unmodified opinion on those statements on October 1, 2021.

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 2021 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.

DeJoy & Co. CPAs, LLP

January 22, 2024.

The Stephan Co.

CONSOLIDATED BALANCE SHEETS

At December 31, 2021 and December 31, 2020

(In thousands, except share and per share amounts)

	<u>2021</u>	<u>2020</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 689	\$ 811
Accounts receivable, net	213	154
Inventories, net	2,535	1,724
Prepaid expenses and other current assets	15	50
	<hr/>	<hr/>
Total Current Assets	3,452	2,739
Other assets, net	127	113
Property and equipment, net	183	154
Deferred tax assets, net	3,222	3,384
Intangibles, net	854	348
Goodwill	1,890	1,890
	<hr/>	<hr/>
TOTAL ASSETS	\$ 9,728	\$ 8,628
	<hr/>	<hr/>
<u>LIABILITIES & STOCKHOLDERS' EQUITY</u>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 872	\$ 464
Current portion of loans payable	111	131
	<hr/>	<hr/>
Total Current Liabilities	983	595
Long-Term Liabilities		
Loans Payable	870	484
	<hr/>	<hr/>
Total Long-term Liabilities	870	484
	<hr/>	<hr/>
TOTAL LIABILITIES	1,853	1,079
	<hr/>	<hr/>
COMMITMENTS AND CONTINGENCIES (Note 13)		
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; 4,714,436 shares in 2021 and 2020 issued (4,068,051 shares outstanding in 2021 and 2020)	47	47
Additional paid-in capital	18,777	18,777
Accumulated deficit	(9,683)	(10,009)
Treasury stock, at cost (646,385 and 646,385 shares in 2021 and 2020)	(1,266)	(1,266)
	<hr/>	<hr/>
Total Stockholders' Equity	7,875	7,549
	<hr/>	<hr/>
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$ 9,728	\$ 8,628
	<hr/>	<hr/>

See Notes to Consolidated Financial Statements.

The Stephan Co.
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2021 and December 31, 2020
(in thousands, except share and per share data)

	<u>2021</u>	<u>2020</u>
Revenue, net	\$ 9,226	\$ 8,982
Cost of revenue	6,529	6,034
Gross profit	<u>2,697</u>	<u>2,948</u>
Selling, general, and administrative expenses	2,271	2,123
Depreciation and amortization	107	92
Operating income	<u>319</u>	<u>733</u>
Other income, net	333	30
Interest expense	(18)	(5)
Income from operations before income taxes	<u>634</u>	<u>758</u>
Income tax (expense) benefit	(308)	2,909
NET INCOME	<u>\$ 326</u>	<u>\$ 3,667</u>
Per common share:		
Basic and diluted net income	<u>\$ 0.08</u>	<u>\$ 0.91</u>
Net income	\$ 0.08	\$ 0.91
Weighted Average Common Shares Outstanding:		
Basic	4,068,051	4,031,925
Diluted	4,068,051	4,031,925

See Notes to Consolidated Financial Statements.

The Stephan Co.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended December 31, 2021 and December 31, 2020

(in thousands, except share information)

	<u>Shares Issued</u>	<u>Par Value</u>	<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Treasury Stock</u>	<u>Stockholders' Equity</u>
Balance at January 1, 2020	4,652,436	\$ 47	\$ 18,638	\$ (13,676)	\$ (1,266)	\$ 3,743
Stock based compensation	62,000	-	139	-	-	139
Net income	-	-	-	3,667	-	3,667
Balance at December 31, 2020	<u>4,714,436</u>	<u>47</u>	<u>18,777</u>	<u>(10,009)</u>	<u>(1,266)</u>	<u>7,549</u>
Net income	-	-	-	326	-	326
Balance at December 31, 2021	<u><u>4,714,436</u></u>	<u><u>\$ 47</u></u>	<u><u>\$ 18,777</u></u>	<u><u>\$ (9,683)</u></u>	<u><u>\$ (1,266)</u></u>	<u><u>\$ 7,875</u></u>

See Notes to Consolidated Financial Statements.

The Stephan Co.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2021 and December 31, 2020
(in thousands)

	<u>2021</u>	<u>2020</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
NET INCOME	\$ 326	\$ 3,667
Adjustments to reconcile net income to net cash flows (used in) provided by operating activities:		
Deferred income taxes	162	(2,909)
Gain on extinguishment of debt	(300)	-
Stock based compensation	-	139
Depreciation and amortization	107	92
Changes in operating assets & liabilities:		
Accounts receivable, net	(59)	(9)
Inventories, net	(811)	(297)
Prepaid expenses and other current assets	21	(37)
Accounts payable and accrued expenses	408	(560)
NET CASH FLOWS (USED IN) PROVIDED BY OPERATING ACTIVITIES	(146)	86
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Cash paid for asset purchase, net	(550)	(150)
Purchases of property and equipment	(92)	(20)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(642)	(170)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Loans received	680	615
Principal payments on loans payable	(14)	-
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	666	615
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(122)	531
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	811	280
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 689	\$ 811
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest and taxes	\$ 94	\$ -

See Notes to Consolidated Financial Statements.

The Stephan Co.

**NOTES TO CONSOLIDATED FINANCIAL
STATEMENTS**

DECEMBER 31, 2021 AND 2020

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 (“Distributor segment”) 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, goodwill impairment, the valuation and useful lives of intangible assets and inventory reserves. 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. On January 30, 2020, the World Health Organization declared the COVID-19 outbreak a “Public Health Emergency of International Concern” and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of COVID-19 include restrictions on travel, quarantines, or “stay-at-home” restrictions in certain areas and forced closures for certain types of public places and businesses. COVID-19 and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets globally, including the geographical areas in which the Company operates.

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

GOODWILL: The Company followed accounting guidance under 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, 2021 and 2020, 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, 2021 and 2020, there was no impairment of long-lived assets.

CONCENTRATION RISK: The Company’s largest sales concentration was via the amazon portal and was approximately 10% of net revenue for the year ended December 31, 2021. No customer accounted for 10% or more of revenue for the year ended December 31, 2020.

Three suppliers accounted for approximately 50% of materials included in cost of revenue for the year ended December 31, 2021. Accounts payable to these suppliers totaled approximately \$259,000 as of December 31, 2021. Three suppliers accounted for approximately 43% of total cost of revenue for the year ended December 31, 2020. Accounts payable to these suppliers totaled approximately \$69,000 as of December 31, 2020.

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.

SHARE-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 12). Stock-based costs 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 1% and 2% 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, 2021 and 2020.

Contract Balances – Timing differences among revenue recognition may result in contract assets or liabilities. The Company did not have contract assets or liabilities as of December 31, 2021 or 2020.

Accounts Receivable - Net accounts receivable were approximately \$213,000 and \$154,000 as of December 31, 2021 and 2020, 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 collection experience. 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 doubtful accounts of approximately \$55,000 and \$43,000 is adequate as of December 31, 2021 and 2020, respectively.

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 Accounting Standards Codification ("ASC") 606. 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 occurs 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.

ADVERTISING EXPENSES: The Company expenses all advertising costs as incurred. Total advertising costs for the years ended December 31, 2021 and 2020 were approximately \$270,000 and \$166,000, respectively, and are included in selling, general, and administrative expenses in the accompanying consolidated statements of income.

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

SHIPPING AND HANDLING COSTS: Expenses for shipping products sold to customers were approximately \$926,000 in 2021 and \$854,000 in 2020 and were included in cost of revenue in the consolidated statements of income. Charges to customers for freight and handling are included in net revenues in the consolidated statements of income.

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 first-in, first-out 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	5-10
Furniture and office equipment	3-5

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, 2021 and 2020, the Company had no outstanding options.

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

NOTE 2: NEW ACCOUNTING STANDARDS

Leases:

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases*. This standard requires all entities that lease assets with terms of more than 12 months to capitalize the assets and related liabilities on the consolidated balance sheet.

In June 2020, the FASB issued ASU 2020-05 which delayed the effective date for the Company to January 1, 2022. The ASU allows for the use of a modified retrospective transition approach for its adoption. The Company is currently evaluating the effect ASU 2016-02 will have on its consolidated financial statements and related disclosures. Management expects the assets leased under operating leases similar to the leases disclosed in Note 11 will be capitalized together with the related lease obligations on the consolidated balance sheet upon the adoption of ASU 2016-02.

NOTE 3: BUSINESS/ ASSETS ACQUISITIONS

In October 2021, the Company purchased inventory, patents and trademarks that are used in connection with the business of the 614 Barber Supply, Inc. through an asset purchase agreement. In consideration, the Company paid \$875,000 that included the purchase of \$325,000 worth of inventory. The Company evaluated the asset purchase agreement based on ASC 805 and determined that the transaction was an asset acquisition. As such, \$550,000 was recorded as amortizable intangible assets with a weighted average amortizable period of approximately 10 years.

In June 2020, the Company purchased inventory, patents, and trademarks that are used in connection with the business of the Norva Barber Supply, Inc. through an asset purchase agreement and in consideration the Company paid \$150,000 in cash. The Company evaluated the asset purchase agreement based on ASC 805 and determined that the transaction was an asset acquisition. As such, \$150,000 was recorded as amortizable intangible assets with a weighted average amortizable period of approximately 10 years.

NOTE 4: ACCOUNTS RECEIVABLE

At December 31, 2021 and 2020, the gross carrying amount of trade accounts receivable was approximately \$268,000 and \$197,000, respectively. The reserve for uncollectible accounts was approximately \$55,000 and \$43,000 at December 31, 2021 and 2020, respectively.

NOTE 5: INVENTORIES

Inventories consist of the following at December 31:

<i>(in thousands)</i>	<u>2021</u>	<u>2020</u>
Total inventories	<u>\$ 2,535</u>	<u>\$ 1,724</u>

Inventory consists of finished goods, including barber equipment, such as hairdryers, electric clippers, lather machines, scissors, and salon furniture. Inventory also includes finished goods, including barber supplies, ranging from bottles and jars to chemicals and fragrances. The aforementioned inventory values are net of inventory obsolescence reserves of \$29,000 at both December 31, 2021 and 2020.

NOTE 6: PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

<i>(in thousands)</i>	<u>2021</u>	<u>2020</u>
Machinery and equipment	\$ 510	\$ 468
Furniture and office equipment	<u>313</u>	<u>264</u>
Total cost	823	732
Accumulated depreciation	<u>(640)</u>	<u>(578)</u>
Property and equipment, net	<u>\$ 183</u>	<u>\$ 154</u>

Depreciation expense was approximately \$62,000 and \$54,000 for the years ended December 31, 2021 and 2020, respectively.

NOTE 7: INTANGIBLE ASSETS

Intangible assets consists of the following at December 31:

<i>(In thousands)</i>	<u>Estimated Useful Lives</u>	<u>2021</u>	<u>2020</u>
Intangible Assets	10 Years	\$ 998	\$ 447
Less Accumulated Amortization		<u>(144)</u>	<u>(99)</u>
		<u>\$ 854</u>	<u>348</u>
Non amortizing goodwill		<u>\$ 1,890</u>	<u>\$ 1,890</u>

Amortization expenses totaled approximately \$45,000 and \$36,000 during the years ended December 31, 2021 and 2020, respectively. Future amortization of intangible assets as of December 31, 2021 is expected to be as follows:

<u>Years Ending December 31,</u>	<i>(In thousands)</i>
2022	\$ 100
2023	100
2024	100
2025	100
2026	100
Thereafter	354
	<u>\$ 854</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>2021</u>	<u>2020</u>
Accounts payable	\$ 741	\$ 357
Accrued expenses	22	6
Taxes payable	51	20
Accrued payroll	31	58
Accrued returns	11	11
Accrued vacation	<u>16</u>	<u>12</u>
Total accounts payable and accrued expenses	<u>\$ 872</u>	<u>\$ 464</u>

NOTE 9: LONG TERM LIABILITIES

During April 2020, three of The Stephan Co. subsidiaries individually obtained a Paycheck Protection Program loan (the "PPP loans") from Service 1st Federal Credit Union in the aggregate amount of approximately \$215,000 as a part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), which was enacted by the U.S. Congress in response to the COVID-19 pandemic. The PPP loans bore interest at 1% and were secured by the unconditional guarantee of the U.S. Small Business Administration ("SBA"). As provided under the terms of the debt, the PPP loans were forgiven during May 2021 based on the Company's use of the PPP loan proceeds for payroll and other related eligible costs. The resultant gain on extinguishment of debt of \$214,000 has been reported within other income in the accompanying consolidated statement of income for the year ended December 31, 2021.

During May, 2020, three of The Stephan Co. subsidiaries individually executed the standard loan documents required for securing loans offered by the SBA 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 begin approximately twelve months from the date of the EIDL loans disbursements. The loans are secured by the subsidiaries’ deposit accounts, inventory and equipment.

During February 2021, The Stephan Co. subsidiary, Morris Flamingo, obtained an additional PPP loan from Service 1st Federal Credit Union of approximately \$85,000. The PPP loan bore interest at 1% and was secured by the unconditional guarantee of the SBA. As provided under the terms of the debt, the PPP loan was forgiven during July 2021 based on the Company’s use of the PPP loan proceeds for payroll and other related eligible costs. The resultant gain on extinguishment of debt of \$86,000 has been reported within other income in the accompanying consolidated statement of income for the year ended December 31, 2021.

During August 2021, The Stephan Co. subsidiary, Bowman, entered into a business access line of credit note 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, 2021, was 3.25%. The Company did not use the line of credit in the financial year 2021. This line is secured by all of the Company’s cash deposits, securities and instruments that are in the possession of M&T Bank.

During October, 2021, The Stephan Co. subsidiary, 614, received a term loan for \$595,000 from 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 The Stephan Co.

Minimum future principal payments for the EIDL loans and Term loan from M&T Bank outstanding as of December 31, 2021 are as follows:

<u>Year Ending December 31,</u>	<u>(In thousands)</u>
2022	\$ 111
2023	122
2024	127
2025	132
2026	115
Thereafter	374
	<u>\$ 981</u>

NOTE 10: INCOME TAXES

Provision for (benefit from) income taxes consists of the following for the years ended December 31:

<i>(in thousands)</i>	<u>2021</u>	<u>2020</u>
Current:		
Federal	\$ (3)	\$ (11)
State	149	24
	<u>146</u>	<u>13</u>
Deferred:		
Federal	120	(2,922)
State	42	-
	<u>162</u>	<u>(2,922)</u>
Total	<u>\$ 308</u>	<u>\$ (2,909)</u>

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

<i>(in thousands)</i>	2021	2020
Deferred income tax assets:		
Net operating loss carryover	\$ 3,354	\$ 3,465
Inventory reserve	8	8
Stock option compensation	6	6
Other, net	17	22
Deferred income tax assets	<u>3,385</u>	<u>3,501</u>
Deferred income tax liabilities:		
Goodwill	(95)	(71)
Property and equipment depreciation	(68)	(46)
Deferred income tax liabilities	<u>(163)</u>	<u>(117)</u>
Net deferred income tax assets	<u>\$ 3,222</u>	<u>\$ 3,384</u>

The provision for income taxes in 2021 and 2020 is comprised of current federal and state income taxes due to those states prohibiting the filing of consolidated tax returns and a change in valuation allowance. A reconciliation of the provision for income taxes computed by applying the statutory United States federal income tax rate and the provision for income tax reflected in the accompanying consolidated statements of income is as follows for the years ended December 31:

<i>(in thousands)</i>	2021	2020
Current federal tax expense	\$ (3)	\$ (11)
Provision at federal statutory rate	133	340
Change in valuation allowance	-	(3,048)
Current state tax expense	149	24
Utilization of net operating losses	29	(214)
Total	<u>\$ 308</u>	<u>\$ (2,909)</u>

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. All of the Company's NOLs were generated prior to the tax cut jobs act, which was effective for 2018. As such, these NOLs are subject to expiration beginning in 2026. Based on the history of profitability and utilization of the Company's net operating losses, as of December 31, 2020, the Company determined that a valuation allowance was no longer required and as such released the valuation allowance in full during the year ended December 31, 2020.

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 NOLs for U.S. federal and state tax purposes that have attributes from closed periods. Since these NOLs and tax credit carry-forwards 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 11: LEASES

Rent expense during the years ended December 31, 2021 and 2020 was approximately \$177,000 and \$165,000, respectively.

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 will expire in August 2024. There is one additional five year option remaining. The future minimum lease payments for operating leases is as follows:

<u>Year</u>	<u>Rent</u> <i>(in thousands)</i>
2022	\$ 210
2023	211
2024	155
	<u>\$ 576</u>

NOTE 12: 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, which reserved a maximum of 400,000 shares to be available under the plan. Eligibility to the 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. There were no options issued during the years ended December 31, 2021 and 2020 and there are no options outstanding and exercisable as of December 31, 2021 and 2020.

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, 2021 and 2020 and there was no restricted stock outstanding as of December 31, 2021 and 2020.

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, 2021 and 2020 and there was no deferred stock outstanding as of December 31, 2021 and 2020.

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, 2021 and 2020 and there was no other stock-based awards outstanding as of December 31, 2021 and 2020.

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 plan shall lapse upon a change of control.

c) Directors Incentive Share Plan

The 2018 Directors Incentive Share Plan provides for annual common stock option grants to non-employee directors. The plan reserved 200,000 shares to be available to be issued under the plan. Eligibility to the 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 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 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 this plan during the year ended December 31, 2021. During the year ended December 31, 2020, there was 62,000 shares granted to directors at a value of \$2.25 per share. The stock-based compensation expense related to these grants was \$139,500 for the year ended December 31, 2020.

NOTE 13: COMMITMENTS AND CONTINGENCIES

The Company has been named in more than over 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, we cannot predict the outcome of this or any other legal contingency and our insurance carriers have agreed to fund a significant portion of our current expenses.

NOTE 14: SUBSEQUENT EVENTS

Subsequent events were evaluated through January 22, 2024 in connection with the preparation of these consolidated financial statements, which is the date the consolidated financial statements were available to be issued.

On August 15, 2022, The Stephan Co. announced the acquisition of Appleton Barber Supply ("Appleton") and the acquisition of the assets was financed with cash on hand as well as a new bank financing. The purchase price was \$769,000 and included the purchase of \$419,000 of Appleton inventory. No liabilities were assumed in the asset purchase. On August 12, 2022, The Stephan Co. subsidiary received a term loan for \$680,000 at the rate of 6.33% per annum from M&T Bank. The proceeds of the loan were used for the acquisition of Appleton Barber Supply.

On August 6 2023, The Stephan Co. approved and announced a special dividend of 3 cents per share to shareholders with a record date of August 14, 2023. As of August 1, 2023, the Company resumed its previously announced plan to repurchase up to 500,000 shares on the open market.

On October 23, 2023, The Stephan Co. announced that Henry Jacobi has been named Chief Executive Officer of the Company. Mr. Jacobi replaced Benjamin Large and Mr. Large no longer serves as a member of The Stephan Co. Board of Directors.