The Stephan Co.

Annual Report

Year Ended December 31, 2014

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.

1500 E. Lancaster Avenue
Suite 205
Paoli, PA 19301
(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, 2014 and 2013
(ii) Number of shares authorized: 25,000,000
(iii) Number of shares issued: 4,389,611
(iv) Number of shares held in treasury: 340,536
(v) Number of shares outstanding: 4,049,075
(vi) Freely tradable shares (public float): 4,049,075
(vii) Total number of beneficial stockholders: 50
(viii) Total number of stockholders of record: 150 (approx.)

Preferred Stock

(i) Period end date: December 31, 2014 and 2013
(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., 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 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, recapitalizations, mergers, spin-offs or reorganizations.
- 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'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.
- The Company did not sell any Common Stock during fiscal year 2014.

B. Legal Proceedings

In addition to the matters set forth below, the Company is involved in other litigation arising in the normal course of business.

In April, 2015, the Company settled the case Trevor Sorbie International, Plc. v. Sorbie Acquisition Co. and its related litigation. The settlement amount was $1,500,000 and is recorded as an accrued legal settlement as of December 31, 2014. Trevor Sorbie International, Plc. v. Sorbie Acquisition Co. (Case No. 05-14908-09) was instituted in March 2007, in the Circuit Court of the 17th Judicial Circuit in and for Broward County, Florida (the "March 2007 Case"). The March 2007 Case was initiated to enforce a Pennsylvania state court judgment entered on October 30, 2005 based on an arbitration award. The arbitration award arose under a finding that Sorbie Acquisition Co. (a subsidiary of the Company) owed past due royalty payments to Trevor Sorbie International, Plc. for Trevor Sorbie hair product trademarks that Sorbie Acquisition Co. had purchased from Trevor Sorbie International, Plc. during 1996. As part of the settlement the Company also conveyed the Trevor Sorbie hair product trademarks back to Trevor Sorbie International, Plc. The settlement satisfied the March 2007 Case, the Pennsylvania State Court judgment, the arbitration verdict and various judgments entered against the Company and its subsidiaries in the March 2007 case. Activity related to the Sorbie settlement is reflected in discontinued operations. Such activity is summarized in Note 3 to the consolidated financial statements.

In August 2013 the Company settled, Shaheen & Co., Inc. v. The Stephan Co., (Case No. 05-15175) filed in the Circuit Court of the 17th Judicial Circuit in and for Broward County, Florida in July 6, 2005. In the litigation, Shaheen & Co., the owner of a building formerly leased by the Company in Danville, Illinois, sought damages of approximately $1,400,000, alleging that the Company wrongfully terminated the lease. On June 12, 2013, the court ruled that The Stephan Co. did not breach its lease with Shaheen & Co. The court did award Shaheen & Co. the sum of $105,477 related to the condition of the leased premises when vacated by the Stephan Co. The judgment was not appealed. The Company satisfied the judgment in August 2013.

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 primarily engaged in the sale and distribution of hair care and personal care products at both the wholesale and retail level. Our headquarters is located in Paoli, Pennsylvania. During November 2014, our board of directors made a difficult decision to exit the manufacturing side of our business and discontinue operations within our Brands operating segment. Effective November 2014, results of operations for the Brands segment will be reported as discontinued operations. For comparative purposes and to comply with Generally Accepted Accounting Principles ("GAAP"), 2013 results of operations and related cash flows have been restated for comparison purposes. As a result of these changes, activities within our Distributor segment and corporate overhead costs are the sole operations represented in continuing operations. We currently have distribution centers in Tampa, Florida and Williamsport, Pennsylvania focused on distributing hair care and personal care products. During 2014, we consolidated a Wilmington, North Carolina distribution facility to our Williamsport, Pennsylvania distribution facility and listed our Tampa properties for sale.

The Company is comprised of The Stephan Co. and its wholly owned operating subsidiaries: Old 97 Company, Williamsport Barber and Beauty Corp. ("Williamsport"), Stephan & Co., Inc., Scientific Research Products, Inc. of Delaware, Sorbie Distributing Corp., Stephan Distributing, Inc., Morris Flamingo-Stephan, Inc. ("Morris Flamingo"), American Manicure, Inc., Lee Stafford Beauty Group, Inc., Bowman Beauty and Barber Supply, Inc. ("Bowman") and Nationwide-Stephan, Inc. ("Nationwide").

We have one reportable operating segment, Distributors. Our Distributors segment consists of sales to distributors that purchase hair care products and beauty and barber supplies for sale to salons, barbershops and beauty schools.

Distributors

Some of our wholly owned subsidiaries are distributors of our products and third party products. Morris Flamingo, located in Tampa, Florida, is a beauty and barber distributor, which markets its products utilizing catalogs published under the Morris Flamingo and Major-Advance brand names. Williamsport, located in Williamsport, Pennsylvania, is a mail order and online barber and beauty supply company. Bowman which was located in Wilmington, North Carolina, is also a mail order and online barber and beauty supply company that was re-located to Williamsport, Pennsylvania during 2014. Nationwide, which was located in Syracuse, New York, was principally a mail order barber and beauty supply company that also maintained a small retail store. We closed the Nationwide business April 2013. Morris Flamingo, Williamsport and Bowman comprise the Distributors segment while Nationwide's operations are represented as discontinued operations. Our Distributors generally do not manufacture the products they sell.

Brands

As noted previously, we discontinued operations within our Brands segment during November 2014. As such, results of operations and related cash flows are represented as discontinued operations. Until December 19, 2014, we manufactured and distributed a wide variety of proprietary brands at our Tampa facilities.

RAW MATERIALS, PACKAGING and COMPONENTS INVENTORY

The materials utilized by the Company and our subsidiaries in the manufacture of its products consists primarily of common chemicals, fragrances, alcohol, perfumes, labels, plastic bottles, caps and cartons. All materials are readily available at competitive prices and from numerous sources. Neither the Company, nor any of our subsidiaries, has ever experienced any significant shortage in supplies. Due to market conditions in the petroleum industry, the Company continues to experience cost increases in both raw material and components as well as an increase in freight costs; the Company periodically increases its selling prices in an attempt to compensate for additional costs incurred.

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, 2014, the Company did not have a large backlog of orders.

RESEARCH and DEVELOPMENT

During the year ended December 31, 2013, the Company decided to update the technology of one of its proprietary products, the Latherking™ and incurred approximately $75,000 developing this technology. These costs were expensed to selling, general and administrative costs in 2013. Additionally, during

2014, the Company incurred tooling related costs approximating $39,000 related to this product which has been capitalized. All other costs for the year ended December 31, 2014 for Company-sponsored research relating to the development of new products, services or techniques were immaterial and expensed as incurred.

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 greater industry competition: 1) a decrease in the number of distributors resulting from industry consolidation, 2) lower beauty school enrollments and 3) general economic conditions.

We believe that the principal competitive factors are price and product quality. Products manufactured and 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, 2014, we employed approximately 46 people who were engaged in the, warehousing and distribution of its products and in the management and administration of the Company's business. Although we do not anticipate the need to hire a material 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 owned approximately 33,000 sq. ft. of combined manufacturing and warehouse space in Ft. Lauderdale, Florida. The Ft. Lauderdale location was our corporate headquarters until March 2014, when it was relocated to our Tampa facilities. We sold this facility on August 19, 2014. During the fourth quarter of 2013, the Company rationalized the need to maintain two facilities with common attributes and decided to consolidate manufacturing operations to gain operational and cost efficiencies. During 2014, all operational functions were moved to our Tampa facilities in which we own approximately 82,000 sq. ft. of combined manufacturing, warehousing and administrative offices. As discussed in Note 17 to the Consolidated Financial Statements, the Tampa facilities were listed for sale and our corporate headquarters was relocated to Paoli, Pennsylvania. None of our owned facilities are encumbered by mortgages.

Our Distributors operate out of leased facilities. In Tampa, Florida, our Morris Flamingo business operated out of approximately 90,000 sq. ft. of warehouse space that also encompassed a small amount of administrative space until December 2013. As a result of successfully downsizing this business and finding a suitable sub-lease tenant, we moved operations to one of our owned facilities in the Tampa area. In Wilmington, North Carolina, our Bowman unit operated out of approximately 12,000 sq. ft. of combined warehouse and administrative space until August 2014, when it was relocated to Williamsport, Pennsylvania. In Syracuse, New York, we closed our Nationwide unit in April 2013 which operated out of approximately 23,500 sq. ft. of combined warehouse, administrative and retail space. Our Williamsport and Bowman businesses operate out of approximately 7,500 sq. ft. of combined warehouse and administrative space.

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

EXECUTIVE OFFICERS

During 2012, the Company experienced several changes to executive leadership of the Company. In March 2012, Frank Ferola, the Company's President, Chief Executive Officer and Chairman of the Board, passed away unexpectedly.

Additionally, Robert Spindler, Chief Financial Officer since July 2007, left the employment of the Company in December 2012. During 2013, William Gross, a board member, part-time employee and the Company's Secretary, retired effective February 2013 from all duties with the exception of his duties as a board member. April 2014, Mr. Gross resigned as a board member and was granted the title Director Emeritus. Mr. Gross, although no longer a member of the board, provides guidance to legacy items for the Company.

Michael Smith, 59, was hired as President and Chief Executive Officer during May 2012 and also was appointed to the Company's Board of Directors. From 2011 to 2012, Mr. Smith was interim President and Chief Executive Officer of Mace Security International, Inc. and from 2002 to 2011 he was Founding Partner of Chesterbrook Growth Partners, a consulting firm organization focused on providing strategic and operational advice to small and medium size firms in the security, RFID, auto-identification and electronic components industries. From 2001 to 2002, Mr. Smith was President and Chief Executive Officer of Checkpoint Systems, Inc. During the second quarter of 2015, the Company and Mr. Smith began to negotiate his departure from the Company. See Note 17 for more detail.

Steven Rolle, 45, joined the Company in November 2012 and was appointed its Chief Financial Officer in January 2013 and also became the Company's Secretary upon Mr. Gross' retirement in February 2013. For the five years prior to his joining the Company, Mr. Rolle was the Corporate Controller and Director of Financial Reporting for Mace Security International, Inc.

BOARD OF DIRECTORS

The Company's By-Laws provide that directors are to be organized into three classes, with each class to be elected on a staggered basis, every third year. The directors, in each class, when elected have a three-year term or until their successors are elected at the next election of the class. 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 one.

Set forth below is certain information with respect to the members of the Board of Directors who served during 2014, or are currently members of the board. The current board has seven members.

Name	Age (as of 3/15/15)	Year first elected as a Company Director	Principal Occupation(s) During Past Five Years; Other Directorships
William M. Gross (2)(3)	91	2005	Certified Public Accountant and Attorney. For more than previous five years, he had served as Authorized House Counsel for the Company on a part-time basis. In March 2014, resigned as a board member and was granted the honorary title of Director Emeritus.

Curtis Carlson (4)	62	1996	For more than the previous five years, partner in various law firms. Currently a partner in the Miami-based firm of Carlson & Associates, P.A. Currently serves as Interim Chairman of the Board for the Company.
Richard Barone (1)(2)(3)(4)	73	2005	For more than the previous five years, Chairman, CEO and Portfolio Manager for Ancora Advisors, an investment advisor based in Cleveland, OH. Additionally, Chairman of Ancora Capital and Ancora Securities, holding company and broker/dealer, respectively, based in Cleveland. Chairman of the Board of Mace Security International, Inc.
Elliot Ross (1)(2)(4)	69	2005	Since 2000, Co-founder of MFL Group, a corporate consulting firm. Mr. Ross ceased being a board member October 2014.
Jad Fakhry (4)	35	2014	Since 2012, Founder and Managing Member of Poplar Point Capital Management LLC. Prior to founding Poplar Point Capital Management LLC in 2012, Analyst for Farallon Capital Management from 2006-2012. Appointed as a board member during March 2014.
Peter Ferola (4)	46	2014	Currently serves as General Counsel and Senior Vice President, Corporate Development of BioTelemetry, Inc. Prior experiences include Vice President, General Counsel and Secretary at Nipro Diagnostics, Inc. corporate and securities attorney with Greenburg Traurig, LLP and with Dilworth Paxson, LLP in Washington, D.C. focusing on mergers, acquisitions, public securities offerings, and corporate governance matters. Prior to obtaining his law degrees, Mr. Ferola also worked for The Stephan Co. in various capacities including serving as the Vice President, Administration and Corporate Secretary overseeing the Company's administrative functions, legal matters and investor relations. Mr. Ferola is the son of our former Chief Executive Officer, Frank Ferola who passed away March, 2012. Appointed as a board member during October 2014.
Chuck Gillman (4)	44	2014	Mr. Gillman is the head of the IDWR Multi-Family Office which employs a team of analysts with an expertise in finding publicly-traded companies that require operational enhancement and an improvement in corporate capital allocation. His team has had many years of experience working together to invest Family-Office capital into publicly-traded companies. His organization evolved from experience in the 1990's designing operational turnarounds of U.S. and international companies while at McKinsey and Company. Appointed as a board member during October 2014.

Lee Keddie (4)	46	2015	Mr. Keddie currently serves on the board of CompuMed, Inc., a telemedicine and eHealth provider that delivers specialized cardiology services to primary care settings. From 2000 to 2013, he held various positions including President and General Manager at HKX, Inc. a specialized hydraulic component company. Mr. Keddie was elected to the board in February 2015.
Mike Smith	59	2012	Since May 2012 President and CEO of the Company. From 2011 to 2012, Mr. Smith was Interim President and Chief Executive Officer of Mace Security International, Inc. and from 2002 to 2011 he was Founding Partner of Chesterbrook Growth Partners, a consulting firm organization focused on providing strategic and operational advice to small and medium size firms in the security, RFID, auto-identification and electronic components industries. From 2001 to 2002, Mr. Smith was President and Chief Executive Officer of Checkpoint Systems, Inc.

(1) Member of the Audit Committee, the Audit Committee does not have a charter.

(2) Member of the Compensation Committee

(3) Member of the Nominating Committee

(4) Deemed by the Board to be an independent Director, under the standards of the NASDAQ Capital Market.

COMMITTEES OF THE BOARD

The Board has established three standing committees including (1) an Audit Committee (2) a Compensation Committee and (3) a Nominating Committee.

FAMILY RELATIONSHIPS

None noted.

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.otcmarkets.com (symbol: SPCO.PK).

Item XIV Beneficial Owners.

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

- Vera Ferola, 17630 Circle Pond Court, Boca Raton, FL 33496 (including 43,174 shares held by Estate of Frank and Vera Ferola Charitable Trust): 610,333 shares.
- Richard A. Barone, 2000 Auburn Drive Ste. 300, Cleveland, OH 44122 (including 100,000 shares directly owned, 77,500 shares owned through controlled entities, 287,158 shares of managed clients with voting authority, and 47,864 shares of managed clients with no voting authority) 512,522.

- Poplar Pointe Capital Partners, L.P., 840 Hinckley Road, Suite 221, Burlingame, CA 94010: 726,058 shares.

  Total shares held by the above owners of 5% or more of the Company's outstanding common stock totaled 1,848,913, or 45.7%, of total outstanding shares (4,049,075) at December 31, 2014.

The Company deregistered its securities with the Securities and Exchange Commission ("SEC") 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, what definitive beneficial ownership is. As of April 28, 2015, there are 4,008,408 shares approximating 99.0%, 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: Crowe Horwath LLP 401 East Las Olas Boulevard , Suite 1100, Fort Lauderdale, FL 33301-1420 -- (954) 202-8600
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. <u>Management's Discussion and Analysis</u>

<u>Liquidity and Capital Resources</u>

We had cash and cash equivalents of $1.7 million at December 31, 2014. Our cash was maintained in FDIC-insured bank accounts and collateralized short-term investments.

Our Company consumed total cash flow of approximately $237,000 in 2014. This was inclusive of cash generated from the sale of our former Ft. Lauderdale, Florida facility of $1.8 million. Significant uses of cash during 2014, including discontinued operations, included, but are not limited to 1) principal payments of $24,000 on long-term indebtedness related to a previous business acquisition 2) capital expenditures of $266,000 related to manufacturing and financial system improvements 3) one-time transition costs of $376,000 related to employee termination and business closure costs and 4) legal and professional fees related to litigation approximating $178,000.

The Company remains focused on maintaining its excellent credit worthiness. Additionally, we continue to evaluate potentially accretive acquisitions of quality companies which fit our distribution business model.

We have adequate liquidity and do not foresee the need for additional capital for day-to-day operations in the next year. At December 31, 2014, we maintain approximately $2.8 million in working capital and have a tangible net worth of $2.8 million. See notes 16 and 17 for additional information regarding the Company's liquidity and capital resources.

Although we realized a substantial loss in 2014, we believe that our cash on hand and positive working capital can adequately fund operations going forward. Management has continued to modify certain businesses to limit risk and increase profitability and if necessary, is poised to make further adjustments if certain areas of growth are not realized.

We have no off-balance sheet financing arrangements, except for operating leases described in Note 11 to the Consolidated Financial Statements attached hereto.

Results of Operations 2014 v. 2013

In late 2011, we relocated an underperforming business, Morris Flamingo, from Illinois to Florida. Management believed that the relocation of this subsidiary would benefit the stockholders because the rent was substantially lower in Florida as opposed to Illinois and that the Florida location was much more conducive to a more accessible labor market and other company operations, including executive management.

The revenue decline of Morris Flamingo occurring during the past several years continued during 2012 with a decline in revenue of approximately $1.8 million, or 34% from 2011. New management tried several aggressive factors during 2012 which included a revised web site, trade show presentation and increased catalog distribution along with additional customer service representation and training. The resulting efforts were able to stabilize sales levels, but not without added costs.

During 2013, as a result of the erosion of the Morris Flamingo business, management re-structured operations of this business and eliminated significant costs which included a reduction in staff, a reduction in product offerings and finding a suitable sub-lease tenant to occupy its vacant 90,000 sq. ft. leased facility it had moved to during 2011. Management successfully downsized this business during 2013 while concentrating its focus on barber supply distribution. The Morris Flamingo business has been re-located to an owned facility in Tampa.

Additionally, during 2013, management also evaluated its Nationwide unit and determined that the inherent cost structure to operate this business was too costly for its revenue base and ceased operations during April 2013. Nationwide's results for 2014 and 2013, including cash flows, are represented as Discontinued Operations.

During the fourth quarter of 2014, the Company's board of directors made a difficult decision to exit the manufacturing side of our business and discontinue operations within our Brands operating segment. Effective November 2014, results of operations for the Brands segment and corresponding cash flows will be reported as Discontinued Operations. For comparative purposes and to comply with GAAP, 2013 results of operations and related cash flows have been restated for comparison purposes.

Revenues from Continuing Operations for 2014 declined a total of $1.4 million, or 13.9% from 2013 which was primarily a result of the 2013 re-structuring of our Morris Flamingo business which experienced a $964,000, or 38.7%, decrease. Additionally, we experienced a $697,000, or 19.8% decline in our Bowman unit as we re-located this business during 2014. These decreases were slightly offset by a $239,000, or 5.6% increase in our Williamsport unit.

Net loss per share was $(0.67) in 2014 compared to $(0.85) in 2013. $(0.14), or $567,000 of the loss for 2014 and $(0.16) of the net loss for 2013, or $633,000 relates to impairment losses recorded to the trademarks within our discontinued Brands segment. Additionally, $(0.37) of the loss in 2014 relates to the $1.5 million settlement of the longstanding Sorbie litigation while the loss from 2013 is offset by $0.15 for the $600,000 reversal of a previous a previous legal accrual related to Sorbie litigation.

Operating expenses in 2014 include $178,000 of professional fees related to the Sorbie legal matter and $376,000 of employee termination, move and business closure costs.

B. **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.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.

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

Part F Exhibits

Item XVIII Material Contracts

The Company entered into an employment agreement with its new President and Chief Executive Officer on May 21, 2012 and expiring on May 21, 2015. On October 29, 2013, the agreement was amended changing the expiration to October 31, 2016. The agreement requires annual base compensation and provides for incentive compensation subject to the Company achieving certain financial goals, or sale of the Company. The agreement provides for severance if employment is terminated without cause prior to the expiration date. During the second quarter of 2015, the Company and Mr. Smith began to negotiate his departure from the Company. See Note 17 for more detail.

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

No purchases of common stock were made by the Company in 2014 or 2013.

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, 2014 and 2013

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Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

Stockholders
The Stephan Co.
Paoli, Pennsylvania

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The Stephan Co, which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Stephan Co. as of December 31, 2014 and 2013, 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.

Crowe Horwath LLP

Crowe Horwath LLP

Fort Lauderdale, Florida
July 23, 2015

The Stephan Co

CONSOLIDATED BALANCE SHEETS

At December 31, 2014 and December 31, 2013

(In thousands, except share and per share amounts)

	2014	2013
ASSETS		
Current Assets		
Cash and cash equivalents	$ 1,721	$ 1,958
Accounts receivable, net	147	226
Inventories	908	1,431
Prepaid expenses and other current assets	94	190
Short-term assets of discontinued operations	1,986	2,071
Total Current Assets	4,856	5,876
Other assets, net	12	12
Property, plant and equipment, net	137	49
Long-term assets of discontinued operations	---	1,068
Goodwill, net	1,395	1,395
TOTAL ASSETS	$ 6,400	$ 8,400
LIABILITIES & STOCKHOLDERS' EQUITY		
Current Liabilities		
Current portion of long-term debt	$ ---	$ 24
Accounts payable and accrued expenses	127	665
Short-term liabilities of discontinued operations	1,899	683
Total Current Liabilities	2,026	1,372
Deferred income tax liability	140	79
TOTAL LIABILITIES	2,166	1,451
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
At December 31, 2014 and December 31, 2013:		
Preferred stock, $.01 par value; 1,000,000 shares authorized; none issued or outstanding	---	---
Common stock, $.01 par value; 25,000,000 shares authorized; 4,389,611 shares issued (4,049,075 shares outstanding)	44	44
Additional paid-in capital	18,174	18,170
Accumulated deficit	(13,121)	(10,402)
Treasury stock (340,536 shares) at cost	(863)	(863)
TOTAL STOCKHOLDERS' EQUITY	4,234	6,949
TOTAL LIABILITIES & STOCKHOLDERS EQUITY	$ 6,400	$ 8,400

See Notes to Consolidated Financial Statements.

The Stephan Co

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31, 2014 and December 31, 2013

(in thousands, except share and per share data)

	2014	2013
Revenue	$ 8,839	$ 10,261
Cost of revenue	6,356	6,632
Gross profit	2,483	3,629
Selling, general and administrative expenses	2,870	4,283
Depreciation and amortization	16	20
Operating loss	(403)	(674)
OTHER INCOME (EXPENSE)		
Interest income, net	1	3
Loss from continuing operations before income taxes	(402)	(671)
Provision for income taxes	54	105
Loss from continuing operations	(456)	(776)
Loss from discontinued operations, net of tax of $0 in 2014 and 2013	(2,263)	(2,657)
NET LOSS	$ (2,719)	$ (3,433)
Per common share:		
Basic and diluted net loss from continuing operations	$ (0.11)	$ (0.19)
Basic and diluted net loss from discontinued operations	(0.56)	(0.66)
Net loss	$ (0.67)	$ (0.85)
Weighted average common shares outstanding	4,049,075	4,049,075

See Notes to Consolidated Financial Statements.

The Stephan Co

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended December 31, 2014 and December 31, 2013

(in thousands, except share information)

	Shares Issued	Par Value	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Stockholders' Equity
Balance at January 1, 2013	4,389,611	$ 44	$ 18,157	$ (6,969)	$ (863)	$ 10,369
Stock option compensation	---	---	13	---	---	13
Net loss	---	---	---	(3,433)	---	(3 ,433)
Balance at December 31, 2013	4,389,611	$ 44	$ 18,170	$ (10,402)	$ (863)	$ 6,949
Stock option compensation	---	---	4	---	---	4
Net loss	---	---	---	(2,719)	---	(2,719)
Balance at December 31, 2014	4,389,611	$ 44	$ 18,174	$ (13,121)	$ (863)	$ 4,234

See Notes to Consolidated Financial Statements.

The Stephan Co

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2014 and December 31, 2013

(in thousands)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
NET LOSS	$ (2,719)	$ (3,433)
Loss from discontinued operations, net of tax	(2,263)	(2,657)
Loss from continuing operations	(456)	(776)
Net cash flows used in operating activities:		
Deferred income tax expense	61	79
Loss (gain) on sale of property, plant and equipment	---	9
Depreciation and amortization	16	15
Stock option compensation	4	13
Changes in operating assets & liabilities:		
Decreases in accounts receivable, net	76	66
Decrease in inventories	524	1,441
Decrease (increase) in prepaid expenses and other current assets	56	(75)
(Decrease) increase in accounts payable and accrued expenses	(455)	308
Net cash (used in) provided by operating activities - continuing operations	(174)	1,080
Net cash (used in) operating activities - discontinued operations	(1,585)	(2,497)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(1,759)	(1,417)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from sale of property, plant, and equipment	---	10
Purchases of property, plant, and equipment	(104)	---
Net cash (used in) provided by investing activities - continuing operations	(104)	10
Net cash provided by (used in) investing activities - discontinued operations	1,650	(195)
NET CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES	1,546	(185)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net cash used in financing activities - continued and discontinued operations	(24)	(94)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	(24)	(94)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(237)	(1,696)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,958	3,654
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 1,721	$ 1,958
Supplemental Disclosures of Cash Flow Information:		
Interest expense paid	---	3
Taxes paid	10	28

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

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

NATURE OF OPERATIONS: The Company was primarily engaged in the manufacture, sale and distribution of hair grooming and personal care products principally throughout the United States through its Brands segment. During November 2014, the Company's Board of Directors rationalized that the inherent risk associated with continuing operations within its Brands segment outweighed the future benefit. This meant that the re-building strategy that the Company began during 2012 as a result of the untimely death of its CEO, Frank Ferola, would cease and that the Company would focus its resources to its other business segment, Distribution. As a result of this decision, it directed management to maximize a return on Brand assets which included selling certain real estate holdings, finding successor buyers for its various product lines and liquidating inventory.

USE OF ESTIMATES: The preparation of consolidated financial statements in conformity with 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 period. These estimates include assessing the collectability of accounts receivable, realization of deferred income taxes, the useful lives of long lived assets, goodwill impairment, the valuation and useful lives of intangible assets, legal accruals 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.

PRINCIPLES OF CONSOLIDATION: The consolidated financial statements include the accounts of The Stephan Co. and its wholly owned subsidiaries: Old 97 Company, Williamsport Barber and Beauty Corp. ("Williamsport"), Stephan & Co., Inc., Scientific Research Products, Inc. of Delaware, Sorbie Distributing Corp., Stephan Distributing, Inc., Morris Flamingo-Stephan, Inc. ("Morris Flamingo"), American Manicure, Inc., Lee Stafford Beauty Group, Inc., Bowman Beauty and Barber Supply, Inc. ("Bowman") and Nationwide-Stephan, Inc. ("Nationwide"). All significant inter-company balances and transactions have been eliminated in consolidation.

IMPAIRMENT OF LONG-LIVED ASSETS: 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 the years ended December 31, 2014 and December 31, 2013, there was no impairment of long-lived assets.

GOODWILL AND OTHER INTANGIBLE ASSETS: Goodwill and other intangible assets are assessed for impairment by reporting unit at least annually and any such impairment recognized in the period in which the impairment is identified. A reporting unit is a business for which discrete financial information is available and is regularly reviewed by management. The Company has two identifiable reporting units to which goodwill or intangible value is assigned, one in the Distributors segment, Williamsport/Bowman, and one in Brands which is reported as Discontinued Operations with intangible assets and represented within Assets Held for Sale at December 31, 2014.

ASC 350 requires a two-step approach to test goodwill and other intangibles for impairment for each reporting unit. The first step tests for impairment by applying fair value-based tests to a reporting unit. The second step, if deemed necessary, measures the impairment by applying fair value-based tests to specific assets and liabilities within the reporting unit. Application of the goodwill impairment tests requires judgment, including identification of reporting units, assignment of assets and liabilities to each reporting unit, assignment of goodwill to each reporting unit, and determination of the fair value of each reporting unit. The determination of fair value for a reporting unit could be materially affected by changes in these estimates and assumptions.

Certain estimates and judgments are required in the application of the fair value models. For 2013, each reporting unit's fair value was determined using discounted cash flow and other market-related valuation models. For 2014, with respect to goodwill recorded on its Williamsport/Bowman unit, the Company followed accounting guidance under Accounting Standards Update ("ASU") No. 2011-08, which 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. This assessment showed that there were no indicators present to indicate that fair value was less than recorded value.

For the year ended December 31, 2014, the Company, for its Williamsport/Bowman unit that has recorded goodwill, utilized qualitative factors to determine that there were no indicators present to indicate fair value was less than recorded value. For the year ended December 31, 2013, the Company decided to bypass the qualitative approach and instead opted to test for impairment under the more detailed quantitative process and determined fair value exceeded recorded book value. The Company will continue to evaluate goodwill for impairment annually, or as any impairment indicators become present. Such indicators could include, but are not limited to (1) a significant adverse change in legal factors or in business climate (2) unanticipated competition, or (3) an adverse action or assessment by a regulator.

With respect to its Brands reporting unit that is reported as Discontinued Operations with intangible assets, fair value was determined based upon subsequent events in which the Company sold intangible assets through multiple transactions with different buyers. At December 31, 2014, the value of those assets represent the net value received through the subsequent sale of said assets. The Company does not believe any other intangible assets related to its Brands reporting unit will be successfully sold and have therefore written their book value down to zero. In the event that the Company is successful at selling any of the remaining intangible assets within its Brands reporting unit, it will record it as a gain on sale and report it as Discontinued Operations. At December 31, 2014, the Company impaired intangible assets within it Brands reporting unit by $567,000 to its fair value of $430,000. At December 31, 2013, the Company impaired intangible assets within it Brands reporting unit by $633,000. See Note 15 for more detail.

MAJOR CUSTOMERS, CERTAIN VENDORS: There were no sales to any single customer in excess of 10% of revenue in 2014 or 2013. 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 we order goods from other countries, some foreign manufacturers require a deposit at the time of order.

SHARE-BASED PAYMENTS: Share-based payments, comprised of stock option grants, are measured at their fair value on the awards' grant date, based on estimated number of awards that are ultimately expected to vest. Share-based compensation awards issued to non-employees for services rendered are recorded at either the fair value of the services rendered or the fair value of the share-based payment, whichever is more readily determinable. The Company recognizes compensation expense based on management's determination of the equity instrument's fair value at the grant date and allocates the expense ratably over the applicable vesting period.

The Company recognized compensation expense of $4,000 and $13,000 related to stock options issued in 2014 and 2013, respectively. The Company used the Black-Scholes option pricing model to estimate the fair value of stock options using the following assumptions for 2014 and 2013:

	2014	2013
Term	5 years	5 years
Risk-free interest rate	1.74%	1.36%
Expected volatility	37.7%	36.5%
Dividends per share	0.0%	0.0%
Fair value at grant date	$ 0.48	$ 0.38

The above assumptions are based on a number of factors, including: (i) the expected volatility which was determined using the historical volatility of the Company's stock price; (ii) the expected term of the options which was based on the period of time that the options granted are expected to be outstanding, (iii) the expected dividends, (iv) expected forfeitures, and (v) the risk-free rate which was the U.S. Treasury rate effective at the time of grant for the duration of the options granted.

FAIR VALUE OF FINANCIAL INSTRUMENTS: The Company, using available market information and recognized valuation methodologies, has determined the estimated fair values of financial instruments that are presented herein. However, considerable judgment is required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of amounts the Company could realize in a current market sale of such instruments.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are based on market data obtained from sources independent of the Company.

Unobservable inputs reflect the Company's own assumptions based on the best information available in the circumstances. The fair value hierarchy prioritizes the inputs used to measure fair value into three broad levels. The three levels of the fair value hierarchy are defined as follows:

> Level 1 - Inputs are quoted prices in active markets for identical assets or liabilities as of the reporting date.
>
> Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, as of the reporting date.
>
> Level 3 - Unobservable inputs for the asset or liability that reflect management's own assumptions about the assumptions that market participants would use in pricing the asset or liability as of the reporting date.

The following methods and assumptions were used to estimate fair value: the carrying amounts of cash and cash equivalents, accounts receivable and accounts payable were assumed to approximate fair value due to their short-term nature. Management believes that the carrying amounts of these financial instruments approximate their fair values.

Goodwill and trademarks were measured at fair value on a nonrecurring basis during the years ended December 31, 2014 and 2013 using significant unobservable inputs (Level 3). At December 31, 2014, we utilized qualitative factors to determine that there were no indicators present to indicate that fair market value was less than recorded book value. At December 31, 2013, goodwill with a book value of $1.4 million was tested for impairment and it was determined that implied fair value exceeded recorded book value by $2.2 million for our Williamsport/Bowman reporting unit. With respect to the trademarks within our Brands reporting unit with a carrying value of $997,000, we wrote them down to their net realizable value which was determined upon their negotiated sales price that occurred during the period subsequent to December 31, 2014. At December 31, 2013, trademarks within our Brands reporting unit with a carrying value of $1.6 million were written down to their implied fair value of $997,000. (see Notes 14, 15, and 17 for more detail).

REVENUE RECOGNITION: Revenue is recognized when there is persuasive evidence of an arrangement, the price is fixed and determinable and all significant contractual obligations have been satisfied, which involve the delivery of the products sold and reasonable assurance that any account receivable will be collected. Revenue is shown after deductions for payment and volume discounts and returns. We estimate that these discounts and returns approximate between 1% and 2% of gross revenue. The Company 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. The allowances for sales returns and promotional liabilities are established based on the Company's estimate of the amounts necessary to settle future and existing obligations for such items based on products sold as of the balance sheet date and are recorded as part of net revenues.

COST OF GOODS SOLD: 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 from continuing operations were approximately $776,000 in 2014 and $866,000 in 2013, respectively, and were included in cost of revenues in the Consolidated Statements of Operations. Shipping costs related to discontinued operations were approximately $213,000 in 2014 and $380,000 in 2013, respectively. Charges to customers for freight and handling are included in net revenues in the Consolidated Statements of Operations.

CASH AND CASH EQUIVALENTS / CONCENTRATION OF RISK: Cash and cash equivalents include cash, repurchase agreements and similar highly-liquid investments having maturities of 90 days or less when acquired. The Company had most of its cash, except for the repurchase agreement described below, deposited with various financial institutions and was subject to FDIC insurance. The Company also had cash deposited in a bank under an agreement to repurchase daily. The amount invested pursuant to the repurchase agreement is collateralized by the underlying government-issued security. The Company has not experienced any losses in such accounts in the past and believes it is not exposed to any significant credit risks.

ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS: A significant portion of the Company's sales does not involve trade credit. Trade credit is generally extended to distributors and large retailers based upon credit worthiness. The allowance for doubtful accounts is based upon specific identification of customer balances that are unlikely to be collected plus an estimated amount for potentially uncollectible amounts. Receivables are written-off when considered uncollectible. No receivables are sold. The Company does not accrue interest on its receivables.

INVENTORIES: Inventories are stated at the lower of cost (determined on the first-in, first-out basis) or market. Indirect labor and other manufacturing-related costs are allocated to finished goods inventories.

With the changeover in management during 2012 and the material inventory disposal project that ensued throughout the rest of that year, the Company, during 2013, turned focus on its rebuilding strategy. This entailed returning to original formulations as well as developing sales strategies in an attempt to regain previously lost revenues from product lines and customers that had diminished steadily over the past several years within its Brands segment. Throughout 2013, the Company worked on this strategy and began to see limited success penetrating certain retail accounts late in the year, but faced continued challenges gaining back customers it lost over the past several years. As such, during the fourth quarter of 2013, the Company analyzed inventory which included raw materials and components in which it did not foresee utilizing within the next eighteen months and applied a slow moving obsolescence reserve that approximated $500,000 at December 31, 2013.

Furthermore, and as discussed previously, the Company's board of directors during November 2014, determined that the inherent risk associated with continuing operations within its Brands segment outweighed future benefits. As a result of this decision, it directed management to maximize a return on assets within its Brands segment which included selling certain real estate holdings, finding successor buyers for its various product lines, and liquidating inventory in an orderly fashion. At December 31, 2014, to reflect inventory value at its expected realizable value under its discontinuance strategy, a reserve on Brand inventory was recorded of $700,000 and is represented as a component of short-term assets from discontinued operations.

PROPERTY, PLANT AND EQUIPMENT: Property, plant 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:

	Years
Buildings and improvements	15-30
Machinery and equipment	5-10
Furniture and fixtures	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.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Company recognizes interest and penalties related to income tax matters in income tax expense.

BASIC AND DILUTED EARNINGS PER SHARE: Basic and diluted earnings per share are computed by dividing net income by the weighted average number of shares of common stock outstanding. The weighted average outstanding common shares were approximately 4.0 million shares in 2014 and 2013. At the end of 2014, we had 4,049,075 common shares outstanding.

At December 31, 2014, the Company had approximately 482,162 options outstanding, of which 141,667 were "in-the-money." The effect of options for the periods in which we incurred a net loss has been excluded for the purpose of calculating earnings per share as it would have been anti-dilutive.

NOTE 2: NEW FINANCIAL ACCOUNTING STANDARDS:

In April 2014, the FASB issued ASU 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, to change the criteria for determining which disposals can be presented as discontinued operations and enhanced the related disclosure requirements. ASU 2014-08 is required on a prospective basis beginning January 1, 2015, and early adoption is permitted. The Company elected early adoption of this standard.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers: Topic 606*, to supercede nearly all existing revenue recognition guidance under U.S. Generally Accepted Accounting Principles ("U.S. GAAP"). The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 defines a five step process to achieve this principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition procss than required under existing U.S. GAAP including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 is effective for us beginning January 1, 2017 using either of two methods: (i) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09; or (ii) retrospective with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined per ASU 2014-09. We are currently evaluating the impact of our pending adoption of ASU 2014-09 on our consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, Disclosure of Uncertainties About and Entity's Ability to Continue as a Going Concern, which requires management to evaluate whetere there is a substantial doubt about an entity's ability to continue as a going concern and provide related footnote disclosures. The guidance is effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early adoption is permitted for financial statements that have not been previously issued. The Company does not expect this standard to have a material impact on the Company's consolidated financial statements upon adoption.

Other recently issued accounting pronouncements did not, or are not believed by management to, have a material effect on the Company's present or future consolidated financial statements.

NOTE 3: DISCONTINUED OPERATIONS

The Company reviews the carrying value of its long-lived assets held and used, and its assets to be disposed of, for possible impairment when events and circumstances warrant such a review. We also follow the applicable guidance in determining when to reclass assets to be disposed of to assets and related liabilities held for sale as well as when an operation disposed of or to be disposed of is classified as a discontinued operation in the statements of operations and the statements of cash flows.

The Company's board of directors during November 2014 rationalized that the inherent risk associated with continuing operations within its Brands segment outweighed the future benefit. This meant that the re-building strategy that the Company began during 2012 as a result of the untimely death of its CEO, Frank Ferola, would cease and that the Company would focus its resources to its other business segment, Distribution. As a result of this decision, it directed management to maximize a return on Brand assets which included selling certain real estate holdings, finding successor buyers for its various product lines and liquidating inventory. Prior to the November 2014 decision, the Company was engaged in the manufacture, sale and distribution of hair grooming and personal care products principally throughout the United States. It will now concentrate and focus resources to its Distributor segment.

Assets and liabilities of the discontinued Brands Segment at December 31, 2014 and 2013 was comprised of the following:

(*in thousands*)	2014	2013
Assets:		
Accounts Receivable, net	$ 201	$ 258
Inventory (Held for sale)	520	720
Intangible Assets, net (Held for sale - sold 1Q 2015)	430	997
Fixed Assets, net (Held for sale - see Note 17)	785	---
Other Current Assets	50	96
Total Current Assets	1,986	2,071
Fixed Assets, net	---	1,068
Total Long-term Assets	---	1,068
Total Assets	$ 1,986	$ 3,139
Liabilities:		
Accounts Payable and Accrued Expenses	$ 387	$ 683
Accrued Legal Settlement	1,512	---
Total Current Liabilities	$ 1,899	$ 683

Summarized operating activities included in discontinued operations for the twelve months ended December 31, 2014 and 2013 are as follows:

(*in thousands*)	2014	2013
Revenue	$ 2,382	$ 3,510
Cost of revenue	2,202	2,588
Gross profit	180	922
Selling, general and administrative expenses	1,757	3,505
Depreciation and amortization	24	41
Accrued legal settlement	1,512	(600)
Intangible impairment	567	633
Gain on asset disposal	(1,417)	---
Loss from discontinued operations	$ 2,263	$ 2,657

We owned approximately 33,000 sq. ft. of combined manufacturing and warehouse space in Ft. Lauderdale, Florida. The Ft. Lauderdale location was our corporate headquarters until March 2014, when it was relocated to our Tampa facilities. We sold this facility on August 19, 2014 for proceeds approximating $1.8 million realizing a gain on asset disposal of $1.4 million.

NOTE 4: ACCOUNTS RECEIVABLE

At December 31, 2014 and 2013, the gross carrying amount of trade accounts receivable in continuing operations was approximately $159,000 and $247,000, respectively. The reserve for uncollectible accounts was approximately $12,000 and $21,000 at December 31, 2014 and 2013, respectively.

NOTE 5: INVENTORIES

Inventories related to continuing operations at December 31, 2014 and 2013 consisted of the following:

(*in thousands*)	2014	2013
Raw materials	$ 195	$ 421
Finished goods	713	1,010
Total inventories	$ 908	$ 1,431

Raw materials include surfactants, chemicals and fragrances used in the production process. Packaging materials include cartons, inner sleeves and boxes used in the actual product, as well as outer boxes and cartons used for shipping purposes. Components are 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 $29,000 and $50,000 at December 31, 2014 and December 31, 2013, respectively.

NOTE 6: PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment related to ongoing operations at December 31, 2014 and 2013 consisted of the following:

(in thousands)	2014	2013
Buildings and improvements	$ 115	$ 83
Machinery and equipment	104	65
Furniture and office equipment	192	158
Total cost	410	306
Accumulated depreciation	(274)	(257)
Property, plant, & equipment, net	$ 137	$ 49

Depreciation expense in continuing operations relating to property, plant and equipment was approximately $16,000 and $15,000 for the years ended December 31, 2014 and 2013, respectively. Depreciation expense represented in discontinued operations was approximately $24,000 and $41,000 for the years ended December 31, 2014 and 2013, respectively.

During the year ended December 31, 2013, the Company decided to update the technology of one of its proprietary products, the Latherking™ and incurred approximately $75,000 developing this technology. These costs were expensed to selling, general and administrative costs in 2013. Additionally, during 2014, the Company incurred tooling related costs approximating $39,000 related to this product which has been capitalized. All other costs for the year ended December 31, 2014 for Company-sponsored research relating to the development of new products, services or techniques were immaterial and expensed as incurred. Capital expenditures for discontinued operations approximated $165,000 and $195,000 for the years ended December 31, 2014 and 2013, respectively as the Company invested in financial system and manufacturing improvements.

All fixed assets are unencumbered.

NOTE 7: LONG-TERM DEBT

Long-term debt at December 31, 2014 and 2013 consisted of the following:

(*in thousands*)	2014	2013
Notes payable to former owners of acquired businesses	$ -	$ 24
TOTAL LONG-TERM DEBT	$ -	$ 24
Less: current portion of long-term debt	-	(24)
Long-term debt	$ -	$ -

Notes payable to former owners of Nationwide was $24,000 at December 31, 2013. The Nationwide note was payable over four years @ 5.50%, compounded quarterly; the note matured in 2014. The remaining balance was paid in March 2014.

NOTE 8: ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses from continuing operations at December 31, 2014 and 2013 consisted primarily of trade accounts payable, accrued payroll and accrued expenses as follows:

(*in thousands*)	2014	2013
Accounts payable	$ 43	$ 359
Accrued expenses	3	230
Accrued payroll	29	13
Accrued returns	52	63
Total accounts payable and accrued expenses	$ 127	$ 665

The provision (benefit) for income taxes in 2014 and 2013 ($54,000 and $105,000, respectively) were comprised of current state income taxes due to those states prohibiting the filing of consolidated tax returns and a change in valuation allowance. The company's reconciliation of pretax loss to income tax expense (benefit) is as follows:

(*in thousands*)	2014	2013
Deferred tax benefit	$ (886)	$ (995)
Change in valuation allowance	947	1,074
Current state tax (benefit) expense	(7)	26
Total income tax expense	$ 54	$ 105

Deferred income taxes reflect the net tax effects of temporary differences (items recognized for tax returns and financial statements in different years). The Consolidated Financial Statements include deferred income tax assets and (liabilities) attributable to the following items:

(*in thousands*)	2014	2013
Net operating loss carryover	$ 6,415	$ 5,774
Inventory reserve & capitalization	373	243
Stock option compensation	6	5
Amortization of Intangibles for tax purposes	12	(176)
Fixed asset depreciation	214	137
Other, net	61	151
Deferred tax (liabilities) assets	7,081	6,134
Valuation allowance	(7,081)	(6,134)
Deferred tax asset , net	---	---
Goodwill	140	79
Deferred tax liability , net	$ 140	$ 79

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 becomes deductible. Due to the Company's current financial performance, the deferred tax assets are substantially offset by a valuation allowance at December 31, 2014. Consequently, a valuation allowance equal to the potentially unrealizable deferred tax asset of $7,081,000 was recorded.

The effective income tax rate (the sum of the federal and state tax provisions divided by income before income taxes) differed from the federal statutory rate of 34% as follows:

(as a percentage of income before income taxes)	2014	2013
Statutory rate	34.0%	34.0%
State taxes	2.5%	2.2%
Other	-2.9%	-7.1%
Valuation allowance	-35.6%	-32.3%
Effective income tax rate	-2.0%	-3.2%

The Company has net operating loss ("NOL") carry-forwards of approximately $18.7 million for Federal and State income tax purposes; these carry-forwards will begin to expire in 2024 if not utilized before then. Included in the NOL carry-forwards is approximately $1.0 million related to tax positions for which the ultimate deductibility is certain but for which there is uncertainty about the timing of such deductibility. The tax-effected amounts are included above in the deferred tax assets and are fully reserved for.

Unrecognized tax benefits (gross)	2014	2013
Balance at beginning of year	$ (663)	$ (1,645)
Increases for tax positions in the current year	---	---
(Decreases) increases related to prior period tax positions	(365)	982
Balance at end of year	$ (1,028)	$ (663)

Because of the impact of deferred tax accounting, the disallowance of the shorter deductibility period would not affect the annual effective rate but would accelerate the payment of cash to the taxing authority to an earlier period. The Company files income tax returns in the U.S. federal jurisdiction and the various states where it has physical locations.

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 recognizes interest and/or penalties related to income tax matters in income tax expense. The Company did not have significant amounts of interest or penalties in the years presented.

NOTE 10: SEGMENT INFORMATION

With the board's decision to discontinue operations in the Brands segment in November 2014, the Company now has one identifiable segment, Distributors.

The Distributors segment represents most of the Company's revenue and is expected to grow internally and through acquisitions. It has a customer base of distributors, salons and barber shops that purchase the Company's beauty and barber supplies. This segment also sells directly to cosmetology schools.

The Company conducts operations primarily in the United States; sales to international customers are not material to consolidated revenue.

NOTE 11: LEASES

Rent expense in 2014 and 2013 from continuing operations was approximately $137,000 and $290,000, respectively. 2014 rent was inclusive of approximately $43,000 paid to terminate the remainder of Bowman's lease. Rent expense for discontinued operations in 2014 and 2013 was $6,000 and $180,000, respectively.

Future minimum lease payments for the above operating leases with the last lease expiring September 30, 2017 is as follows:

Year	Rent (*in thousands*)
2015	$ 77
2016	$ 48
2017	$ 36

NOTE 12: CONTINGENCIES & COMMITMENTS

The Company entered into an employment agreement with its new President and Chief Executive Officer on May 21, 2012 and expiring on May 21, 2015. On October 29, 2013, the agreement was amended changing the expiration to October 31, 2016. The agreement requires annual base compensation and provides for incentive compensation subject to the Company achieving certain financial goals, or sale of the Company. The agreement provides for severance if employment is terminated without cause prior to the expiration date. During the second quarter of 2015, the Company and Mr. Smith began to negotiate his departure from the Company. See Note 17 for more detail.

In addition to the matters set forth below, the Company is involved in other litigation arising in the normal course of business.

In April, 2015, the Company settled the case Trevor Sorbie International, Plc. v. Sorbie Acquisition Co. and its related litigation. The settlement amount was $1,500,000 and is recorded as an accrued legal settlement as of December 31, 2014. Trevor Sorbie International, Plc. v. Sorbie Acquisition Co. (Case No. 05-14908-09) was instituted in March 2007, in the Circuit Court of the 17th Judicial Circuit in and for Broward County, Florida (the "March 2007 Case"). The March 2007 Case was initiated to enforce a Pennsylvania state court judgment entered on October 30, 2005 based on an arbitration award. The arbitration award arose under a finding that Sorbie Acquisition Co. (a subsidiary of the Company) owed past due royalty payments to Trevor Sorbie International, Plc. for Trevor Sorbie hair product trademarks that Sorbie Acquisition Co. had purchased from Trevor Sorbie International, Plc during 1996. As part of the settlement the Company also conveyed the Trevor Sorbie hair product trademarks back to Trevor Sorbie International, Plc. The settlement satisfied the March 2007 Case, the Pennsylvania State Court judgment, the arbitration verdict and various judgments entered against the Company and its subsidiaries in the March 2007 case. Activity related to the Sorbie settlement is reflected in discontinued operations. Such activity is summarized in Note 3 to the consolidated financial statements.

In August 2013 the Company settled, Shaheen & Co., Inc. v. The Stephan Co., (Case No. 05-15175) filed in the Circuit Court of the 17th Judicial Circuit in and for Broward County, Florida in July 6, 2005. In the litigation, Shaheen & Co., the owner of a building formerly leased by the Company in Danville, Illinois, sought damages of approximately $1,400,000, alleging that the Company wrongfully terminated the lease. On June 12, 2013, the court ruled that The Stephan Co. did not breach its lease with Shaheen & Co. The court did award Shaheen & Co. the sum of $105,477 related to the condition of the leased premises when vacated by the Stephan Co. The judgment was not appealed. The Company satisfied the judgment in August 2013.

NOTE 13: CAPITAL STOCK AND STOCK OPTIONS

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) Stock Options

In 1990, the stockholders of the Company approved the 1990 Key Employee Stock Incentive Plan, as amended, and the 1990 Non-Employee (Outside Directors) Plan, as amended, and in 2000, the stockholders approved a ten-year extension of both plans. Both plans have been extended to June 21, 2015. The number of shares and terms of each grant are determined by the Compensation Committee of the Board of Directors, in accordance with the 1990 Key Employee Plan, as amended.

The Outside Directors Plan provides for annual common stock option grants to non-employee directors. 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. The Board approved an option grant to each active non-employee director during 2014. No options were granted to non-employee directors in 2013.

During 2013 and 2014, the Board approved an option grant to certain key members of the management team Stock options are granted at the discretion of the Compensation Committee of the Board of Directors. The options generally become exercisable one year from the grant date and exercisable within a maximum of 5-10 years from the date of grant. Common stock issued under the plans has the same rights and privileges as the Company's currently outstanding Common Stock. Unrecognized stock compensation expense at December 31, 2014 approximates $9,000. Stock option activity and the average exercise prices for 2014 and 2013 are set forth below:

	Key Employee	Weighted Exercise Average Price	Outside Directors	Weighted Exercise Average Price	Aggregate Intrinsic Value Key Employee	Aggregate Intrinsic Value Outside Directors
Outstanding at December 31, 2012	400,000	$ 4.40	80,992	$ 2.95	$ ---	$ ---
Granted	150,000	$ 1.12	---	---		
Canceled	---	---	---	---		
Expired	(50,000)	$ 13.31	(20,248)	$ 3.18		
Outstanding at December 31, 2013	500,000	$ 2.52	60,744	$ 2.87	$ 9,000	$ ---
Granted	5,000	$ 1.35	20,000	$ 1.35		
Canceled	(33,333)	$ 1.12	---			
Expired	(50,000)	$ 4.26	(20,248)	$ 2.40		
Outstanding at December 31, 2014	421,667	$ 2.42	60,496	$ 2.52	$ 51,166	$ 4,000

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the last trading day of the related fiscal year and the exercise price, multiplied by the related in-the-money options) that would have been received by the option holders had they exercised their options at the end of the fiscal year.

The exercise price range of options outstanding and exercisable as of December 31, 2014, for both the Key Employee and Outside Directors, the weighted average contractual lives remaining and the weighted average exercise price were as follows:

	Key Employee			Outside Directors		
	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life
Price Range						
$ 1.12 - $ 1.35	88,332	$1.13	3.91	20,000	$1.35	4.50
$ 1.96 - $ 2.60	150,000	$2.39	5.00	---	---	---
$ 3.10 - $ 4.26	150,000	$3.49	2.00	40,496	$3.10	0.99
Total	388,332			60,496		

NOTE 14: GOODWILL

The Company conducts its annual assessment of goodwill for impairment for the Williamsport/Bowman reporting unit as of December 31 of each year. This is our remaining business reporting unit with recorded goodwill and operates within our Distributors segment.

For the year ended December 31, 2014, the Company, for its Williamsport/Bowman unit that has recorded goodwill, utilized qualitative factors to determine that there were no indicators present to indicate fair value was less than recorded value. For the year ended December 31, 2013, the Company decided to bypass the qualitative approach and instead opted to test for impairment under the more detailed quantitative process and determined fair value exceeded recorded book value.

In assessing goodwill for impairment under the quantitative approach, the Company compares the fair value of our reporting unit, Williamsport/Bowman, with its respective net book value. We estimate the fair value of this reporting unit using discounted expected future cash flows, supported by the results of various market approach valuation models. If the fair value of the reporting unit exceeds its net book value, goodwill is not impaired, and no further testing is necessary. If the net book value of this reporting unit exceeds its respective fair value, we perform a second test to measure the amount of impairment loss, if any. To measure the amount of impairment loss, we determine the implied fair value of goodwill in the same manner as if the reporting unit was being acquired in a business combination. Specifically, we allocate the fair value of the reporting unit to all of assets and liabilities of that unit, including any unrecognized intangible assets, in a hypothetical calculation that would yield the implied fair value of goodwill. If the implied fair value of goodwill is less than the goodwill recorded on our balance sheet, we record an impairment charge for the difference.

We performed an extensive valuation analyses, using both income and market approaches, in our goodwill assessment process. The following describes the valuation methodologies used to derive the fair value of the reporting unit.

> Income Approach: To determine fair value, we discounted the expected cash flows of the reporting unit. The discount rate utilized represents the estimated weighted average cost of capital, which reflects the overall level of inherent risk involved in the reporting unit and the rate of return an outside investor would expect to earn. To estimate cash flows beyond the final year of our model, we used a terminal value approach. Under this approach, we used estimated operating income before interest, taxes, depreciation and amortization in the final year of our models, adjusted to estimate a normalized cash flow, and applied a perpetuity growth assumption and discounted by a perpetuity discount factor to determine terminal value. We incorporated the present value of the resulting terminal value into our estimate of fair value.

> Market-Based Approach: To corroborate the results of the income approach described above, we estimated the fair value of the reporting unit using several market-based approaches, including the value we derive based on our consolidated stock price. We also used the guideline company method, which focuses on comparing our risk profile and growth prospects to select reasonably similar guidelines of publicly traded companies.

The determination of the fair value of the reporting unit requires us to make significant estimates and assumptions that affect the reporting unit's expected future cash flows. These estimates and assumptions primarily include, but are not limited to, discount rate, growth rate, capitalization rate, operating income before depreciation and amortization and capital expenditure forecasts. We utilized a discount rate of 14.8%, a 3.5% growth rate and an 11.3% capitalization rate in our assumptions. Due to inherent uncertainty in making these estimates, actual results could differ from those estimates. Additionally, changes in underlying assumptions would have a significant impact on either the fair value of the reporting units or the goodwill impairment charge.

The allocation of the fair value of the reporting unit to individual assets and liabilities within the reporting unit also requires making significant estimates and assumptions. The allocation requires several analyses to determine fair value of assets and liabilities including current replacement costs for certain property, plant and equipment.

The Company will continue to evaluate goodwill for impairment annually, or as any impairment indicators become present. Such indicators could include, but are not limited to (1) a significant adverse change in legal factors or in business climate (2) unanticipated competition, or (3) an adverse action or assessment by a regulator.

(in thousands)	Williamsport/Bowman
Balance at December 31, 2012 and 2013	$ 1, 395
Impairment loss	---
Additions	---
Balance at December 31, 2014	$ 1, 395

NOTE 15: OTHER INTANGIBLES

Other intangibles primarily consist of numerous trade names and trademarks (collectively "trademarks") acquired over many years in business. A majority of these assets are part of our Brands segment and include intangible assets owned through various legal entities acquired by the Company, or brands owned directly by Stephan Co.

Similar to goodwill, intangible assets that are not subject to amortization must be tested for impairment annually, or more frequently, if events, or changes in circumstances indicate that an asset might be impaired. Our trademarks are non-amortizing and have been subject to continually declining revenues in our Brands segment.

With respect to its Brands segment that is reported as Discontinued Operations with intangible assets, fair value was determined based upon subsequent events in which the Company sold intangible assets through multiple transactions with different buyers. At December 31, 2014, the value of those assets represent the net value received through the subsequent sale of said assets. The Company does not believe any other intangible assets related to its Brands reporting unit will be successfully sold and have therefore written their book value down to zero. In the event that the Company is successful at selling any of the remaining intangible assets within its Brands reporting unit, it will record it as a gain on sale and report it as Discontinued Operations. At December 31, 2014, the Company impaired intangible assets within it Brands reporting unit by $567,000 to its fair value of $430,000. Additionally, the Company also has two real properties for sale with net book values of $785,000, see Note 17 for more detail.

The Company performed a valuation of the Brands trademarks at December 31, 2013, the only operating unit with recorded trademark value, and determined trademarks to be impaired by $633,000. This valuation included preparing a forecast of future revenues and costs that were applied to a discounted cash flow model that included assumptions for discount rate, capitalization rate and a terminal value. This resulted in a fair value of the operating unit being less than its net book value. We then determined the fair value of the trademarks by completing a relief from royalty analysis. This entailed using revenues from the forecast and applying an assumed royalty rate along with certain assumptions for taxes and a discount rate. We utilized a 14.8% discount rate and an implied tax rate of 40% in our assumptions. This resulted in a valuation of Brands trademarks at the measurement date December 31, 2013, of $997,000. As such, the Company recorded an adjustment to impair Brands trademarks at December 31, 2013 from $1,630,000 and a $633,000 impairment was recorded.

(*in thousands*)	Brands Trademarks
Balance at December 31, 2012	$ 1,630
Less: non-compete amortization	---
Less: impairment of intangibles	(633)
Balance at December 31, 2013	$ 997
Less: impairment of intangibles	(567)
Balance at December 31, 2014	$ 430

NOTE 16: MANAGEMENT'S PLAN

The Company has generated substantial losses over the past several years much of which relates to the Brands operations which, as described in note 3, was discontinued in 2014. Management has settled a long-standing legal dispute by making a settlement payment in the amount of $1.5 million in early 2015. Management has re-positioned the Company away from its legacy Brands business. Now that the Company has exited the Brands business and settled its long-standing legal matter it will focus on its Barber Distribution business and explore additional business opportunities intended to be accretive to earnings of the Company.

As of the most recent interim financial statement date (March 30, 2015), the Company has cash of approximately $2,000,000 (unaudited). This balance does not reflect the previously mentioned payment of the $1.5 million to settle the legal dispute and the remaining costs of liquidation of the Brands business. With that being considered, available cash is approximately $500,000 (unaudited). The Company also has two properties with net book values aggregating $785,000. As discussed in Note 17, one of the properties has been sold which will generate cash proceeds of $350,000. The Company may sell the remaining property if the pricing is advantageous and/or liquidity needs arise.

NOTE 17: SUBSEQUENT EVENTS

Pursuant to the November 2014 board decision to exit and liquidate its Brands business, the Company listed for sale its two Tampa, Florida properties in December 2014. During March 2015, the Company entered into an agreement of sale for its manufacturing facility for $380,000 and finalized the sale of this property on June 19, 2015 generating approximately $350,000 in cash proceeds after customary closing costs. The Company cannot guarantee that the remaining property will be successfully sold. Additionally, during the first quarter of 2015, the Company relocated its corporate office to Paoli, Pennsylvania.

With respect to the liquidation of its Brands business, the Company successfully sold five of its legacy brand lines in several different transactions occurring in the January through March 2015 time period for a total of $430,000. The associated intangible assets related to these product lines have been written down to the expected net realizable value of $430,000 at December 31, 2014.

During the second quarter of 2015, the Company, as a result of its recent downsizing, began to negotiate with its President and CEO, Mike Smith, regarding his departure from the Company. As of the release date of this financial statement, an agreement has not been finalized.