The Stephan Co.

Annual Report

Year Ended December 31, 2016

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.

6708 N. 54th Street
Tampa, Florida 33610
(813) 248-5761
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, 2016 and 2015
(ii) Number of shares authorized: 25,000,000
(iii) Number of shares issued: 4,389,611
(iv) Number of shares held in treasury: 582,584 in 2016 and 340,536 in 2015
(v) Number of shares outstanding: 3,807,027 in 2016 and 4,049,075 in 2015
(vi) Freely tradable shares (public float): 3,807,027 in 2016 and 4,049,075 in 2015
(vii) Total number of beneficial stockholders: 50
(viii) Total number of stockholders of record: 150 (approx.)

Preferred Stock

(i) Period end date: December 31, 2016 and 2015
(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's Common Stock is quoted on the OTC Pink quotation system maintained by the OTC Markets Group, Inc. There is no established public trading market in the Company's Common Stock.
- In December 2009, the Company voluntarily delisted its Common Stock from the American Stock Exchange and deregistered its Common Stock pursuant to the

Exchange Act of 1934.

- The Company has never been in bankruptcy, receivership or similar proceeding.
- The Company has never defaulted on any note, lease, or other indebtedness or financing arrangement requiring the issuer to make payments.
- There has been no increase in the number of shares of either class of stock in the past five years.
- In the past five years there have been no stock splits, stock dividends or recapitalizations.
- Effective December 31, 2015, the Company went through a reorganization to close out all of its dormant entities. Entities remaining after the reorganization in 2016 are The Stephan Company, Bowman Beauty & Barber Supply, Inc. and Morris Flamingo-Stephan, Inc.
- The Company did not sell any additional Common Stock during the year ended December 31, 2016.

B. Legal Proceedings

The company is not involved in any litigation arising in the normal course of business during the year ended December 31, 2016.

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. 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. in 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 in the consolidated financial statements. Such activity is summarized in Note 3 to the consolidated financial statements.

C. Business of Issuer

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

Item IX The nature of products or services offered.

The Stephan Co. ("we," "our," "Stephan," or the "Company"), is headquartered in Tampa, Florida. We currently have distribution centers in Tampa, Florida and Williamsport, Pennsylvania focused on distributing hair care and personal care products.

In 2015, the Company was 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., Trevor Sorbie of America, 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.

Effective December 31, 2015, the board of directors approved the plan of reorganization to close out all of its dormant entities excluding; The Stephan Co. and two of its wholly owned operating subsidiaries: Williamsport after its merger with Bowman (now referred to as Bowman Beauty & Barber Supply, Inc., post-merger) and Morris Flamingo-Stephan Inc.

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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-Stephan, Inc., 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. Bowman Beauty and Barber Supply, Inc., located in Williamsport, Pennsylvania, is a mail order and online barber and beauty supply company. Morris Flamingo-Stephan, Inc. and Bowman Beauty and Barber Supply, Inc. comprise the Distributors segment. Our Distributors generally do not manufacture the products they sell.

Brands

Until December 19, 2014, we manufactured and distributed a wide variety of proprietary brands at our Tampa facilities. As such, results of operations and related cash flows are represented as discontinued operations in the 2015 consolidated financial statements.

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, 2016, the Company did not have a large backlog of orders.

RESEARCH AND DEVELOPMENT

There were no research and development expenditures in 2016 or 2015.

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 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, 2016, we employed 27 people who were engaged in the warehousing and distribution of products and in the management and administration of the Company's business. Although we do not anticipate the need to hire a significant number of additional employees, the Company believes that any such employees, if needed, would be readily available. The Company believes its employee relationships are satisfactory.

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

Our Distributors operate out of leased facilities. Our Bowman business operates out of approximately 7,500 sq. ft. of combined warehouse and administrative space. Our Morris Flamingo business operates out of approximately 10,000 sq. ft. of combined warehouse and administrative space. The Company's headquarters was relocated to Tampa, Florida in 2015.

All of the manufacturing and warehouse facilities previously owned by the Company were sold during 2015 and 2014.

Part D Management Structure and Financial Information

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

EXECUTIVE OFFICERS

During 2015, the Company made several changes to its executive leadership. This includes the termination of employment of its Chief Executive and Chief Finance officers, Michael Smith and Steve Rolle, respectively. This termination is a result of strategic restructuring designed to align operational expenses with operational needs based on the size of the business, elimination of certain corporate overhead and a focus of management at a business unit level. Specific costs related to these terminations amounted to approximately $750,000, and were fully settled in January 2016.

Eric Kiekbusch, 53, was hired as President in November 2015. Prior to being named President, Mr. Kiekbusch was the Company's Vice President of Operations beginning in June 2012 where he was responsible for all manufacturing and distribution operations. Mr. Kiekbusch began his employment with The Stephan Co. in October 2009 as the Purchasing / Operations Manager. Prior to the Stephan Co., from 2005 to 2009, Mr. Kiekbusch was the Operations Manager of Detroit Electro-Coatings, a tier one supplier to the automotive industry and from 1988 to 2005 he held several positions at Uni-Bond Brake, Inc., a manufacturer and distributor to the automotive industry, including Plant Manager from 2000 to 2005.

Also in November 2015, the Company appointed HC Global Business Solutions (the "Firm") as its Accountants. HC Global Business Solutions is a team of finance professionals that provides a full range of finance, accounting and back office support to businesses of different sizes in a variety of industries. Roselle Polo, one of the Managing Directors of the Firm, took on the role as the Company's Controller. Prior to being appointed by the Company, Ms. Polo had a combined 18+ years of experience in public accounting practice both big 4 (Ernst & Young) and non-Big 4 accounting firms.

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 eight members of the Board of Directors who served during 2016, or are currently members of the board.

Name	Age (as of 3/15/17)	Year first elected as a Company Director	Principal Occupation(s) During Past Five Years; Other Directorships
Curtis Carlson (4) (5)	64	1996	For more than the previous five years, he is partner in various law firms. Currently a partner in the Miami-based firm of Carlson & Associates, P.A. Served as Chairman of the Board for the Company in 2016 until his resignation in February 2017.
Richard Barone (2)(3)(4) (5)	75	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. He resigned as a board member in February 2017.
Jad Fakhry (1)(4)	37	2014	Since 2012, Founder and Managing Member of Poplar Point Capital Management LLC. Poplar Point Capital manages a private investment partnership. Appointed as a board member during March 2014.
Chuck Gillman (4)(5)	45	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 and resigned as a board member in February 2017.
Lee Keddie (1)(4)	48	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.

Brian Harper, CFA (1) (4)	39	2016	Mr. Harper has been founder and president of Harper Asset Management, LLC, a Registered investment Advisory firm, since 2001. Mr. Harper was elected to the board in March 2016. Elected as Chairman of the Board in March 2017.
Benjamin Large (4)	38	2016	Mr. Large is the Managing Member of Nutmeg Investments, LLC. He has experience working with companies to improve their operating results and corporate governance. He previously has experience in the aerospace field as an electrical engineer responsible for designing satellite programs. Appointed as a board member during December 2016.
Joel Getz (4)	52	2017	Mr. Getz is Senior Associate Dean for Development and Alumni Relations at the Yale School of Management. Prior to joining Yale in 2008, he was head of development at the William J. Clinton Foundation and served as President of the Mayor's Fund to Advance New York City during the first term of Mayor Michael Bloomberg's administration. Appointed as a board member during February 2017 and currently serves as Secretary of the Corporation.

(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.

(5) Carlson, Barone and Gillman resigned from from the Board effective February 28, 2017.

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

No family relationships exist during the years ended December 31, 2016 and 2015.

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 Ownership.

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

- Harper Asset Management LLC, 6680 Gunpark Drive, Suite 202b, Boulder, CO 80301: 596,552 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 Point Capital Partners LP, 840 Hinckley Road, Suite 250, 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 1,835,132 or 48.2%, of total outstanding shares (3,807,027) at December 31, 2016.

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 December 31, 2016, there are 3,772,950 shares approximating 99.0% of total outstanding shares, in "street name" in which it is not possible to determine additional beneficial ownership, if any.

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

1. Investment Banker: none
2. Promoters: none
3. Accountant or Auditor:

   Accountants – HC Global Business Solutions, LLC 312 Sutter St., Suite 601 San Francisco, CA 94108 – (415) 796-7539

   Auditor -- Cherry Bekaert LLP 401 East Jackson St., Suite 1200 Tampa, FL 33602 -- (813) 251-1010
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>

Liquidity and Capital Resources

We had cash and cash equivalents of $784,000 at December 31, 2016. Our cash was maintained in FDIC-insured bank accounts and collateralized short-term investments.

Our continuing operations provided net cash flows of approximately $685,000 for the year ended December 31, 2016. This additional cash from operations along with some beginning cash balance were used to make the $105,000 final payment to our former Chief Executive Officer and Chief Finance Officer for the termination of their employment in 2015; repurchase shares of common stock; and distribute dividends to our shareholders totaling to $591,000 in February and August 2016. In April 2016, the Company authorized the repurchase of up to 500,000 shares of common stock. Through December 31, 2016, the Company repurchased a total of 242,000 shares of common stock for $287,000 which is approximately 6% of the outstanding shares as of December 31, 2016.

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, 2016, we have approximately $18.0 million in net operating loss ("NOL") carry forwards available to offset future taxable income, maintain approximately $1.8 million in working capital and have tangible net worth of $1.9 million.

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

Results of Operations 2016 v. 2015

Overall revenues for the year ended December 31, 2016 were $7,935,000 compared to $8,010,000 for the year ended December 31, 2015 or a minimal net decrease in revenue of $75,000, or 0.94%. Much of management's efforts during the first half of 2016 were focused on restoring the Company's profitability and less emphasis was placed on sales growth. Beginning in 2017, the Company has refocused on driving sales and profit growth. Efforts to drive sales growth include: a new website, online ordering functionality improvements and refocused outbound sales initiatives. Management believes that these efforts should help the Company in achieving its goal of growing organic sales in 2017 and beyond.

Selling, General and Administrative expenses decreased from 2015 by approximately $663,000, or 28.0% due to the reduction in the Company's corporate overhead costs and restructuring described previously.

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 President effective January 1, 2016 for a term of three years. The agreement requires annual base compensation and provide for incentive above a threshold EBITDA amount set. The agreement provided for severance if employment is terminated without cause during the term of the agreement.

Item XIX Articles of Incorporation and Bylaws

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

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

In April 2016, the Company was authorized by its Board of Directors to repurchase shares of its outstanding common stock pursuant to open market transactions for up to 500,000 shares. Through December 31, 2016, the company purchased 242,048 shares of common stock for approximately $287,000.

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

Consolidated Financial Statements and

Independent Auditor's Report

The Stephan Co.

December 31, 2016 and 2015

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Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

To Board of Directors and Shareholders
The Stephan Co. and Subsidiaries
Tampa, Florida

We have audited the accompanying consolidated financial statements of Stephan Co. and Subsidiaries (the “Company”), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations, stockholders’ equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management’s Responsibility for the Consolidated 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 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 consolidated financial position of the Company as of December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Cherry Bekaert LLP

Tampa, Florida
September 14, 2017

The Stephan Co.

CONSOLIDATED BALANCE SHEETS

At December 31, 2016 and December 31, 2015

(In thousands, except share and per share amounts)

	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents	$ 784	$ 1,091
Accounts receivable, net	181	223
Inventories, net	974	768
Prepaid expenses and other current assets	75	62
Deferred income tax asset	297	230
Total Current Assets	2,311	2,374
Other assets, net	13	9
Property and equipment, net	250	331
Goodwill, net	1,395	1,395
TOTAL ASSETS	$ 3,969	$ 4,109
LIABILITIES & STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	$ 529	$ 376
Short-term liabilities of discontinued operations	-	112
Total Current Liabilities	529	488
Deferred income tax liability	182	140
TOTAL LIABILITIES	711	628
COMMITMENTS AND CONTINGENCIES (Note 10)		
STOCKHOLDERS' EQUITY		
Preferred stock, $.01 par value; 1,000,000 shares authorized; none issued or outstanding	-	-
Common stock, $.01 par value; 25,000,000 shares authorized; 4,389,611 shares issued (3,807,027 and 4,049,075 shares outstanding in 2016 and 2015, respectively)	44	44
Additional paid-in capital	18,178	18,178
Accumulated deficit	(13,814)	(13,878)
Treasury stock, at cost (582,584 and 340,536 shares in 2016 and 2015, respectively)	(1,150)	(863)
Total Stockholders' Equity	3,258	3,481
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	$ 3,969	$ 4,109

See Notes to Consolidated Financial Statements.

The Stephan Co

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31, 2016 and December 31, 2015

(in thousands, except share and per share data)

	2016	2015
Revenue	$ 7,935	$ 8,010
Cost of revenue	5,525	5,631
Gross profit	2,410	2,379
Selling, general and administrative expenses	1,707	2,370
Restructuring expenses	-	886
Depreciation and amortization	83	36
Operating income (loss)	620	(913)
OTHER INCOME (EXPENSE)		
Other Income, net	10	2
Income (loss) from continuing operations before income taxes	630	(911)
Income tax benefit	25	175
Income (loss) from continuing operations	655	(736)
Income from discontinued operations, net of tax of $0	-	282
NET INCOME (LOSS)	$ 655	$ (454)
Per common share:		
Basic and diluted net income (loss) from continuing operations	$ 0.17	$ (0.18)
Basic and diluted net income from discontinued operations	$ -	$ 0.07
Net income (loss)	$ 0.17	$ (0.11)
Weighted average common shares outstanding:		
Basic	3,898,967	4,049,075
Diluted	3,907,535	-

See Notes to Consolidated Financial Statements.

The Stephan Co

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended December 31, 2016 and December 31, 2015

(in thousands, except share information)

	Shares Issued	Par Value	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Stockholders' Equity
Balance at January 1, 2015	4,389,611	$ 44	$ 18,174	$ (13,121)	$ (863)	$ 4,234
Stock option compensation	-	-	4	-	-	4
Dividends Paid	-	-	-	(303)	-	(303)
Net loss	-	-	-	(454)	-	(454)
Balance at December 31, 2015	4,389,611	44	18,178	(13,878)	(863)	3,481
Stock buyback - 242,048 shares	-	-	-	-	(287)	(287)
Dividends Paid	-	-	-	(591)	-	(591)
Net income	-	-	-	655	-	655
Balance at December 31, 2016	4,389,611	$ 44	$ 18,178	$ (13,814)	$ (1,150)	$ 3,258

See Notes to Consolidated Financial Statements.

The Stephan Co

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2016 and December 31, 2015

(in thousands)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
NET INCOME (LOSS)	$ 655	$ (454)
Income from discontinued operations, net of tax	-	282
Income (loss) from continuing operations	655	(736)
Net cash flows provided by (used in) operating activities:		
Deferred income taxes	(25)	(230)
Depreciation and amortization	83	36
Stock-based compensation	-	4
Changes in operating assets & liabilities:		
Accounts receivable, net	42	(76)
Inventories, net	(206)	140
Prepaid expenses and other assets	(17)	37
Accounts payable and accrued expenses	153	255
Net cash provided by (used in) operating activities - continuing operations	685	(570)
Net cash used in operating activities - discontinued operations	(112)	(1,540)
NET CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES	573	(2,110)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(2)	(134)
Net cash used in investing activities - continuing operations	(2)	(134)
Net cash provided by investing activities - discontinued operations	-	1,917
NET CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES	(2)	1,783
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(591)	(303)
Stock repurchase	(287)	-
NET CASH FLOWS USED IN FINANCING ACTIVITIES	(878)	(303)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(307)	(630)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,091	1,721
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 784	$ 1,091
Supplemental Disclosure of Cash Flow Information:		
Cash paid for taxes	$ 22	$ -

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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

NATURE OF OPERATIONS: The Stephan Co. and its wholly-owned subsidiaries (the “Company”) is engaged in the distribution of hair grooming and personal care products (“Distributor segment”) principally throughout the United States. In 2015, the Company concentrated and focused its resources to its Distributor segment. This decision is discussed in detail in Note 3.

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

PRINCIPLES OF CONSOLIDATION: The 2016 consolidated financial statements include the accounts of The Stephan Co. and its wholly owned subsidiaries: Morris Flamingo-Stephan, Inc. ("Morris Flamingo"), Bowman Beauty and Barber Supply, Inc. ("Bowman"). The reorganization also resulted in the combination of the operations of Williamsport with those of Bowman, with Bowman as the surviving entity.

The board of directors approved the plan of reorganization to close all of its dormant entities effective December 31, 2015. This reorganization was carried out and finalized in early 2016. There was no accounting impact resulting from this reorganization as these entities were all under common control. The 2015 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., Trevor Sorbie of America, 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.

All significant intercompany balances and transactions have been eliminated in consolidation.

IMPAIRMENT OF LONG-LIVED ASSETS OTHER THAN GOODWILL: The Company periodically evaluates whether events or circumstances have occurred that would indicate that long-lived assets may not be recoverable or that their remaining useful lives may be impaired. When such events or circumstances are present, the Company assesses the recoverability of long-lived assets by determining whether the carrying value will be recovered through the expected undiscounted future cash flows resulting from the use of the asset. If the results of this testing indicate an impairment of the carrying value of the asset, an impairment loss equal to the excess of the asset's carrying value over its fair value is recorded. The long-term nature of these assets requires the projection of their associated cash flows and then the discounting of these projected cash flows to their present value. For both of the years ended December 31, 2016 and 2015, there was no impairment of long-lived assets.

GOODWILL: Goodwill is assessed for impairment by the reporting unit at least annually and such impairment, if any, is 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’s reporting unit to which goodwill is assigned is the Distributor segment.

For the year ended December 31, 2016, the Company followed accounting guidance under ASC Topic 350, *Intangibles – Goodwill and Other*, that allows an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived asset is impaired before determining whether it is necessary to perform the more detailed quantitative impairment test. The evaluation considers relevant factors and circumstances such as general macroeconomic conditions, industry and market conditions, changes in cost factors, overall financial performance and entity and reporting unit specific events. For the year ended December 31, 2015, the Company opted to test for impairment under the more detailed quantitative process.

Both assessments in 2016 and 2015 showed that the enterprise value of the Distributor segment exceeded its book value.

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

SHARE-BASED PAYMENTS: 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.

Fair value 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.

No options were granted in 2016 and 2015.

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. The Company estimates 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 totaled $11,500 and $9,000 at December 31, 2016 and 2015, respectively, 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 consolidated 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 $653,000 in 2016 and $665,000 in 2015 and were included in cost of revenues in the Consolidated Statements of Operations. 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 and money market placements, The Company had most of its cash deposited with various financial institutions and was subject to Federal Deposit Insurance Corporation (FDIC) insurance. Cash deposits of approximately $405,000 exceeded the FDIC insurable limits at December 31, 2016.

ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS: 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.

INVENTORIES: Inventories are stated at the lower of cost (determined on the first-in, first-out basis) or market.

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

	Years
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.

BASIC AND DILUTED EARNINGS PER SHARE: Basic and diluted earnings per share are computed by dividing net income or loss by the weighted average number of shares of common stock outstanding.

At December 31, 2016, the Company had 90,186 options outstanding, of which 75,000 were "in-the-money". The effect of options for the year ended December 31, 2016 is reflected in the diluted net income per share in the consolidated statement of operations. The effect of options for the year ended December 31, 2015 in which we incurred a net loss has been excluded for the purpose of calculating earnings per share as inclusion would have been anti-dilutive.

NOTE 2: NEW ACCOUNTING STANDARDS:

Revenue Recognition:

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASC Topic 606, *Revenue from Contracts with Customers*. This accounting standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers to reflect the consideration to which the entity expects to be entitled in exchange for goods and services.

The standard will replace most existing revenue recognition guidance accounting principles generally accepted in the United States of America. Topic 606 is effective for the Company as of January 1, 2019, and permits the use of either a retrospective or cumulative effect transition method. The Company has not selected a transition method and will evaluate in first quarter 2018 the effect Topic 606 will have on its consolidated financial statements and related disclosures.

Leases:

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

The standard is effective for the Company as of January 1, 2020 and requires the use of a modified retrospective transition approach for its adoption. The Company is currently evaluating the effect ASU

2016-02 will have on its consolidated financial statements and related disclosures. Management expects the assets leased under operating leases similar to the lease disclosed in Note 10 will be capitalized together with the related lease obligations on the balance sheet upon the adoption of ASU 2016-02.

NOTE 3: DISCONTINUED OPERATIONS

The Company has generated substantial losses over the past several years much of which relates to the Brands operations. The Company's board of directors determined in November 2014 that the inherent risks associated with continuing operations within its Brands segment outweighed the future benefits. As a result, management made a decision to re-position the Company away from its legacy Brands business and instead focus resources to its Distributor segment. This decision directed management to maximize a return on Brand assets, which included the sale of real estate holdings, sale of its various product lines and the liquidation of inventory.

Liabilities of the discontinued Brands segment at December 31, 2016 and 2015 consisted of the following:

(*in thousands*)	2016	2015
Liabilities:		
Accounts Payable and Accrued Expenses	$ -	$ 112
Total Current Liabilities	$ -	$ 112

Summarized operating activities included in discontinued operations for the year ended December 31, are as follows:

(*in thousands*)	2015
Revenue	$ 619
Cost of revenue	726
Gross deficit	(107)
Selling, general and administrative expenses	(473)
Depreciation and amortization	(2)
Gain on asset disposal	807
Other	57
Income from discontinued operations	$ 282

In January through March 2015, the Company successfully sold five of its legacy brand lines intellectual property in several different transactions for a total of $430,000. The inventories for legacy brand lines were also liquidated.

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 and a gain on the sale of the facility of $217,000.

In December 2015, the Company sold a distribution center generating approximately $1,008,000 in cash proceeds after customary closing costs and a gain on the sale of the facility of $622,000.

In April, 2015, the Company settled the case Trevor Sorbie International, Plc. v. Sorbie Acquisition Co. and its related litigation for approximately $1,500,000 that was previously accrued for. 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.

During the second quarter in 2015, the Company strategically restructured its operations to align operational expenses with operational needs based on the size of the business. Management considered the elimination of certain corporate overhead costs and instead focused management at the business unit level. This decision resulted to the elimination of the Chief Executive Officer position. Costs related to this termination approximated $720,000 which included $90,000 of delayed payment which was paid in January 2016.

The $112,000 in accounts payable and accrued expenses for discontinued operations as of December 31, 2015 pertains to the final payments made to the Chief Executive and Financial Officers, real estate back taxes and minimal vendor invoices which were paid in 2016.

NOTE 4: ACCOUNTS RECEIVABLE

At December 31, 2016 and 2015 the gross carrying amount of trade accounts receivable in continuing operations was approximately $199,000 and $245,000, respectively. The reserve for uncollectible accounts was approximately $18,000 and $22,000 at December 31, 2016 and 2015, respectively.

NOTE 5: INVENTORIES

Inventories at December 31, 2016 and 2015 consisted of the following:

(*in thousands*)	2016	2015
Raw materials	$ 60	$ 49
Finished goods	914	719
Total inventories	$ 974	$ 768

Raw materials include surfactants, chemicals and fragrances sourced by the company and provided to its contracted manufacturer. This also includes packaging materials such as outer boxes and cartons used for shipping as well as components consisting of bottles or containers (plastic or glass), jars, caps, pumps and similar materials that will become part of the finished product. Finished goods also include hairdryers, electric clippers, lather machines, scissors and salon furniture. The aforementioned inventory values are net of inventory obsolescence reserves of $34,000 and $40,000 at December 31, 2016 and 2015, respectively.

NOTE 6: PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2016 and 2015 consisted of the following:

(in thousands)	2016	2015
Machinery and equipment	$ 414	$ 412
Furniture and office equipment	186	186
Total cost	600	598
Accumulated depreciation	(350)	(267)
Property and equipment, net	$ 250	$ 331

Depreciation expense was approximately $83,000 and $36,000 for the years ended December 31, 2016 and 2015, respectively. Depreciation expense included in discontinued operations was approximately $0 and $2,000 for the years ended December 31, 2016 and 2015, respectively.

NOTE 7: ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses from continuing operations at December 31, 2016 and 2015 consisted primarily of trade accounts payable, accrued payroll and accrued expenses are as follows:

(*in thousands*)	2016	2015
Accounts payable	$ 385	$ 218
Accrued expenses	81	77
Taxes payable	19	41
Accrued payroll	25	23
Accrued returns	11	9
Accrued vacation	8	8
Total accounts payable and accrued expenses	$ 529	$ 376

NOTE 8: INCOME TAXES

The provision for income taxes in 2016 and 2015 is comprised of current state income taxes due to those states prohibiting the filing of consolidated tax returns and a change in valuation allowance. Income tax components for the years ended December 31, 2016 and 2015 is as follows:

(*in thousands*)	2016	2015
Deferred tax expense	$ 434	$ 39
Change in valuation allowance	(459)	(269)
Current federal tax expense	212	-
Current state tax expense	8	55
Utilization of NOL	(220)	-
Total income tax benefit	$ (25)	$ (175)

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*)	2016	2015
Net operating loss carryover	$ 6,476	$ 6,804
Inventory reserve and capitalization	13	12
Stock option compensation	7	6
Amortization of intangibles for tax purposes	134	153
Fixed asset depreciation	-	42
Other, net	20	25
Deferred tax assets	6,650	7,042
Valuation allowance	(6,353)	(6,812)
Deferred tax asset , net	$ 297	$ 230
Goodwill	$ 136	$ 140
Fixed asset depreciation	46	-
Deferred tax liability , net	$ 182	$ 140

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 offset by a valuation allowance at December 31, 2016 and 2015. Consequently, a valuation allowance equal to the potentially unrealizable deferred tax asset of $6,353,000 and $6,812,000 were recorded at December 31, 2016 and 2015.

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)	2016	2015
Statutory rate	34.0%	34.0%
State taxes	1.3%	2.5%
Change in tax rate	21.1%	-9.0 %
Other	-	-6.2%
True-up of deferred taxes	12.5%	-34.2%
Change in valuation allowance	-72.7%	40.5%
Effective income tax rate	-3.8%	27.6%

The Company has net operating loss ("NOL") carry-forwards of approximately $18.0 million for Federal and State income tax purposes; these carry-forwards will begin to expire in 2024 if not utilized before then.

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 9: SEGMENT INFORMATION

The Distributors segment represents 100% 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 significant to the consolidated revenue.

NOTE 10: LEASES

Rent expense in 2016 and 2015 from continuing operations was approximately $108,000 and $59,000, respectively. Rent expense for discontinued operations in 2016 and 2015 was $0 and $29,000, respectively.

Existing leases for Morris Flamingo and Bowman were extended to expire in November 2018 and September 2020, respectively. The future minimum lease payment for operating leases with the last lease expiring November 30, 2018 for Morris Flamingo and September 30, 2020 for Bowman is as follows:

Year	Rent (*in thousands*)
2017	$ 93
2018	89
2019	52
2020	39
	$ 273

NOTE 11: 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. Both of these Plans have not been extended as of December 31, 2016.

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. No options were granted to non-employee directors in 2016 and 2015.

The option grants to certain key members of the management team 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. Stock compensation expense related to these grants amounted to $0 and $4,400 for the years ended December 31, 2016 and 2015 respectively.

Stock option activity and the average exercise prices for 2016 and 2015 are set forth below:

	Key Employees	Weighted Exercise Average Price	Outside Directors	Weighted Exercise Average Price	Aggregate Intrinsic Value Key Employees	Aggregate Intrinsic Value Outside Directors
Outstanding at January 1, 2015	121,667	$ 1.13	60,496	$ 2.47	$ 51,166	$ -
Expired/Canceled	(33,333)	$ 1.12	(10,124)	$ 3.10		
Outstanding at December 31, 2015	88,334	$ 1.13	50,372	$ 2.34	10,000	-
Expired/Canceled	(33,334)	$ 1.12	(15,186)	$ 3.12		
Outstanding at December 31, 2016	55,000	$ 1.14	35,186	$ 2.00	$ 11,555	$ 20

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's closing stock price 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, 2016, for both the Key Employees and Outside Directors, the weighted average contractual lives remaining and the weighted average exercise price were as follows:

	Key Employees			Outside Directors		
Price Range	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life
\$ 1.00 - \$ 1.12	50,000	\$1.12	2.46	-	-	-
\$ 1.35 - \$ 3.15	5,000	\$1.35	0.20	35,186	\$2.00	3.90
Total	55,000			35,186		

NOTE 12: SUBSEQUENT EVENTS

Subsequent events were evaluated through September 14, 2017 in connection with the preparation of these consolidated financial statements, which is the date the consolidated financial statements were available to be issued.

In February 2017, the Company made \$0.075 per share dividend payments. These dividend payments totaled to approximately \$285,000. In September 2017, the Company has committed to pay \$0.075 per share dividends totaling approximately \$285,000.

From January to August 2017, the Company repurchased approximately 24,000 shares of common stock or 0.6% of outstanding shares as of August 2017, for approximately \$44,000.

In August 2017, existing leases for Morris Flamingo and Bowman were extended to expire in November 2018 and September 2020, respectively.

In August 2017, the Board of Directors decided to purchase a company through the use of cash and issuance of shares of the Company’s stocks.