

Disclosure Statement Pursuant to the Pink Basic Disclosure Guidelines

The Stephan Co
2211 Reach Road, Suite B4, Williamsport,
Pennsylvania 17701
800-545-5300
www.thestephanco.com
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2844

Quarterly Report

For the Period Ending: September 30, 2023 (the “Reporting Period”)

Outstanding Shares

The number of shares outstanding of our Common Stock was:

4,107,051 as of September 30, 2023

4,108,051 as of June 30, 2023

4,108,051 as of December 31, 2022

Shell Status

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933 and Rule 12b-2 of the Exchange Act of 1934):

Yes: ☐ No: ☒

Indicate by check mark whether the company’s shell status has changed since the previous reporting period:

Yes: ☐ No: ☒

Change in Control

Indicate by check mark whether a Change in Control¹ of the company has occurred over this reporting period:

Yes: ☐ No: ☒

¹ “Change in Control” shall mean any events resulting in:

(i) Any “person” (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becoming the “beneficial owner” (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company’s then outstanding voting securities;

(ii) The consummation of the sale or disposition by the Company of all or substantially all of the Company’s assets;

(iii) A change in the composition of the Board occurring within a two (2)-year period, as a result of which fewer than a majority of the directors are directors immediately prior to such change; or

(iv) The consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation.

1) Name of the issuer and its predecessors (if any)

In answering this item, provide the current name of the issuer any names used by predecessor entities, along with the dates of the name changes.

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.

Effective December 31, 2015, the Company went through a reorganization to close out all of its dormant entities. Entities remaining after the reorganization in 2016 are The Stephan Company, Bowman Beauty & Barber Supply, Inc. and Morris Flamingo-Stephan, Inc.

In September 2017, the Company completed the acquisition of MD Barber Supply, LLC, a distributor of barber supplies and specialized products for the barber and consumer beauty industry.

In November 2018, the Company purchased inventory, assets, patents and trademarks that are used in connection with the business of the BarberMate Brand through an asset purchase agreement.

In July 2019, the Company purchased inventory, assets, patents and trademarks that are used in connection with the business of the Stix Fix and Pomade brand through an asset purchase agreement.

In June 2020, the Company purchased inventory, assets, patents and trademarks that are used in connection with the business of the Norva Barber Supply through an asset purchase agreement.

In October 2021, the company acquired the assets of 614 Barber Supply, the leading wholesale barber supply distributor in the Columbus, OH Metropolitan Area, which was formerly known as Columbus Barber and Beauty Supply.

In August 2022, the Company purchased inventory, assets, patents and trademarks that are used in connection with the business of the Appleton Barber Supply through an asset purchase agreement.

In October 2023, the company purchased the FMS products brand and inventory through as asset purchase agreement.

The state of incorporation or registration of the issuer and of each of its predecessors (if any) during the past five years; Please also include the issuer's current standing in its state of incorporation (e.g. active, default, inactive):

May 29, 1952, Florida, Active

Describe any trading suspension orders issued by the SEC concerning the issuer or its predecessors since inception:

No

List any stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization either currently anticipated or that occurred within the past 12 months:

In October 2021, the company acquired the assets of 614 Barber Supply, the leading wholesale barber supply distributor in the Columbus, OH Metropolitan Area, which was formerly known as Columbus Barber and Beauty Supply.

In August 2022, the Company purchased inventory, assets, patents and trademarks that are used in connection with the business of the Appleton Barber Supply through an asset purchase agreement.

In October 2023, the company purchased the FMS products brand and inventory through an asset purchase agreement.

The address(es) of the issuer's principal executive office:

2211 Reach Road, Suite B4, Williamsport, Pennsylvania 17701

The address(es) of the issuer's principal place of business:

Check box if principal executive office and principal place of business are the same address:

2211 Reach Road, Suite B4, Williamsport, Pennsylvania 17701

3590 Fishinger Blvd, Hilliard, OH 43026

Has the issuer or any of its predecessors been in bankruptcy, receivership, or any similar proceeding in the past five years?

Yes: ☐ No: ☒

If this issuer or any of its predecessors have been the subject of such proceedings, please provide additional details in the space below:

None

2) Security Information

Transfer Agent

Name: American Stock Transfer & Trust Company, LLC

Address: PO Box 12893, Philadelphia, PA 19176-0893

Phone: 800-934-5449

Email: help@astfinancial.com

Is the Transfer Agent registered under the Exchange Act?² Yes: ☒ No: ☐

Trading symbol: SPCO. PK
Exact title and class of securities outstanding: Common Stock
CUSIP: 858603103
Par or stated value: \$0.01

Total shares authorized:	25,000,000	as of date: 09/30/2023
Total shares outstanding:	4,107,051	as of date: 09/30/2023
Number of shares in the Public Float ³ :	2,035,230	as of date: 09/30/2023
Total number of shareholders of record:	225	as of date: 09/30/2023

Security Description:

The goal of this section is to provide a clear understanding of the material rights and privileges of the securities issued by the company. Please provide the below information for each class of the company's equity securities, as applicable:

1. For common equity, describe any dividend, voting and preemption rights.

Each share of common stock is entitled to one vote and not generally entitled to any specific pre-emptive rights. Dividends, if any, are declared at the discretion of the Board of Directors

2. For preferred stock, describe the dividend, voting, conversion, and liquidation rights as well as redemption or sinking fund provisions. - None
3. Describe any other material rights of common or preferred stockholders. - None
4. Describe any material modifications to rights of holders of the company's securities that have occurred over the reporting period covered by this report. - None

³ "Public Float" shall mean the total number of unrestricted shares not held directly or indirectly by an officer, director, any person who is the beneficial owner of more than 10 percent of the total shares outstanding (a "control person"), or any affiliates thereof, or any immediate family members of officers, directors and control persons.

3) Issuance History

A. Changes to the Number of Outstanding Shares

Shares Outstanding as of Second Most Recent Fiscal Year End: Opening Balance Date 01/01/2020 Common: 4,006,215 Preferred: Nil									
Date of Transaction	Transaction type (e.g. new issuance, cancellation, shares returned to treasury)	Number of Shares Issued (or cancelled)	Class of Securities	Value of shares issued (\$/per share) at Issuance	Were the shares issued at a discount to market price at the time of issuance? (Yes/No)	Individual/ Entity Shares were issued to (entities must have individuals with voting / investment control disclosed).	Reason for share issuance (e.g. for cash or debt conversion) - OR- Nature of Services Provided	Restricted or Unrestricted as of this filing.	Exemption or Registration Type.
4/21/2020	Stock Repurchase	-164	Common						
8/21/2020	Stock Grants	10,000	Common	\$2.25	No	Joel Getz, Board of Director	Directors Incentive Share plan		
8/21/2020	Stock Grants	10,000	Common	\$2.25	No	Jad Fakhry, Board of Director	Directors Incentive Share plan		
8/21/2020	Stock Grants	10,000	Common	\$2.25	No	Brian Harper, Board of Director	Directors Incentive Share plan		
8/21/2020	Stock Grants	30,000	Common	\$2.25	No	Benjamin Large, Board of Director, interim CEO	Directors Incentive Share plan		
8/21/2020	Stock Grants	2,000	Common	\$2.25	No	Corey Cincotta, VP of Operations	Directors Incentive Share plan		
5/9/2022	Stock Grants	10,000	Common	\$2.16	No	Joel Getz, Board of Director	Directors Incentive Share plan		
5/9/2022	Stock Grants	10,000	Common	\$2.16	No	Jad Fakhry, Board of Director	Directors Incentive Share plan		
5/9/2022	Stock Grants	10,000	Common	\$2.16	No	Brian Harper, Board of Director	Directors Incentive Share plan		

5/9/2022	Stock Grants	10,000	Common	\$2.16	No	Benjamin Large, Board of Director, CEO	Directors Incentive Share plan		
8/31/2023	Stock Repurchase	-1,000	Common	\$1.17					
Shares Outstanding on Date of This Report:									
<u>Ending Balance:</u>									
Date 09/30/2023									
Common: 4,107,051									
Preferred: NIL									

B. Debt Securities, Including Promissory and Convertible Notes

None

4) Issuer's Business, Products and Services

A. Summarize the issuer's business operations (If the issuer does not have current operations, state "no operations")

The Stephan Co operates six distribution brands: Williamsport Bowman Barber Supply, Morris Flamingo, MD Barber Supply, Norva Barber Supply, Appleton Barber Supply and 614 Barber Supply. Our Williamsport Bowman is a wholesale barber distributor selling third party and proprietary branded products directly to barbershops. Morris Flamingo is a two-step wholesale distributor selling primarily our proprietary branded barber products to other barber distributors. MD Barber sells its owned brands and third party brands through various online channels. Norva is a wholesale barber distributor selling third party products to barbershops. 614 Barber Supply has a walk-in showroom location in Hilliard, OH and also provides service and repair. Appleton Barber Supply is a wholesale barber distributor. The Company also owns a portfolio of barber brands including LatherKing, Campbell's, Stephan's, BarberMate, StixFix and MD Barber, among others.

B. Please list any subsidiaries, parents, or affiliated companies.

The Stephan Co has the following 100% owned subsidiaries and brands

- Bowman Beauty and Barber Supply, Inc
- Morris Flamingo- Stephan, Inc
- MD Barber Supply LLC
- Bowman NBS, Inc dba Norva Barber Supply
- Bowman NBS, Inc dba Appleton Barber Supply
- 614 Barber Supply, Inc

C. Describe the issuers' principal products or services.

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

5) Issuer's Facilities

The Company occupies 26,465 Sq. Ft of leased space and the lease term will expire on September 30, 2024.

Office Address: 2211 Reach Road, Suite B4, Williamsport, PA 17701

The company has a 3,861 square foot walk-in showroom in Hilliard, Ohio

Office Address: 3600 Fishinger Blvd, Hilliard, OH 43026

6) Officers, Directors, and Control Persons

Name of Officer/Director or Control Person	Affiliation with Company (e.g. Officer/Director/Owner of more than 5%)	Residential Address (City / State Only)	Number of shares owned	Share type/class	Ownership Percentage of Class Outstanding	Note
Brian Harper	Director/ more than 5% Holder	Longmont, CO	520,631	Common Shares	12.7%	Mr. Harper is a Partner and Portfolio Manager at Inlight Wealth Management, LLC, a Registered Investment Advisor.
Jad Fakhry	Director/ more than 5% Holder	Burlingame, CA	1,501,190	Common Shares	36.5%	Jad Fakhry and Poplar Point Capital together own 36.5% of the company's outstanding common shares. Jad Fakhry is the founder and Managing member of Poplar Point Capital Management LLC
Joel Getz	Director	New Haven, CT	50,000	Common Share	1.2%	
Benjamin Large	CEO/Director **	Williamsport, PA	48,500	Common Shares	1.2%	
Henry Jacobi	CEO	Buffalo, NY	***			

** On October 23, 2023 Company named Henry Jacobi as the CEO of the company and Mr. Jacobi replaced Benjamin Large and Mr. Large will no longer serve as member of the Stephan co Board of Directors

*** In connection with his employment, Mr. Jacobi was issued 100,000 options to purchase SPCO common shares. The options will vest over a 4 year period with ¼ vesting at each anniversary of employment commencement.

7) Legal/Disciplinary History

A. Please identify whether any of the persons listed above have, in the past 10 years, been the subject of:

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);

None

2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities;

None

3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or

None

4. The entry of an order by a self-regulatory organization that permanently or temporarily barred, suspended, or otherwise limited such a person's involvement in any type of business or securities activities.

None

B. Describe briefly any material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the issuer or any of its subsidiaries is a party or of which any of their property is the subject. Include the name of the court or agency in which the proceedings are pending, the date instituted, the principal parties thereto, a description of the factual basis alleged to underlie the proceeding and the relief sought. Include similar information as to any such proceedings known to be contemplated by governmental authorities.

The Company has been named in more than 100 lawsuits related to talc products it previously manufactured, usually as a contract manufacturer for larger brands. In each case, the Company is one of a large number of defendants named. We have made some progress on our legal exposure and SPCO has been dismissed from some cases. There still remain many lawsuits and we will continue to work to reduce our exposure over time. The Company cannot currently estimate the cost of defending itself in these potential lawsuits or the potential legal liability. The Company will vigorously defend itself and believes the cases are without merit. While the expenses to defend the Company could be material, we cannot predict the outcome of this or any other legal contingency and our insurance carriers have agreed to fund a significant portion of our current expenses.

8) Third Party Providers

Auditors

Firm: DeJoy, Knauf & Blood, LLP
Address 1: 280 East Broad Street, Suite 300, Rochester
Address 2: NY 14604
Phone: 585-546-1840

Accountants

Firm: Redge Global Services
Address 1: 405 Sai Paragon Meadows, 4th Street, BEML Layout Bangalore-560066
Phone: 918-398-0155
Email: contact@redgeglobal.com

9) Financial Statements

A. The following financial statements were prepared in accordance with:

- ☒ U.S. GAAP
☐ IFRS

B. The financial statements for this reporting period were prepared by (name of individual):

Name: Narasimha Rao Muppalla
Title: Chief Financial Officer
Relationship to Issuer: Consultant, Redge Global Services

Dear Fellow SPCO Shareholder,

We believe SPCO has substantial opportunity to improve execution and operational performance and restart organic growth. While we just completed a small brand acquisition (certain products under the trade name “FMS”), we intend to de-emphasize acquisitions in the near future as we work to improve operations. Areas of focus include better selling efforts and improved warehouse efficiencies, well streamlined and integrated websites and internal technology systems, improved filler relationships, optimized working capital and better owned brand quality and consistency. We aim to do all of this while improving service levels to customers to make SPCO the best place for barbers to shop for supplies.

To improve our focus on these operational initiatives, we will shift our capital allocation priorities back to the basics of building cash, selectively reducing debt, and when appropriate paying out cash to shareholders. Once we have achieved our operational goals, we expect to restart our acquisition program, but with a renewed emphasis on more optimal and efficient integration of new purchases.

We want to take this opportunity to thank our shareholders for their continued support and confidence in our company. We remain committed to delivering value and generating sustainable returns for our shareholders.

Sincerely,
Henry Jacobi, CEO
Brian Harper, Chairman of the Board
Joel Getz, Secretary and Director
Jad Fakhry, Director

The Stephan Co
CONSOLIDATED BALANCE SHEETS
At September 30, 2023 and December 31, 2022
(In thousands, except share and per share amounts)

	2023 (Unaudited)	2022 (Unaudited)
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 1,270	\$ 1,203
Accounts receivable, net	131	101
Inventories, net	2,148	2,313
Prepaid expenses and other current assets	<u>274</u>	<u>217</u>
Total Current Assets	3,823	3,834
Other assets, net	120	62
Property and equipment, net	107	132
Deferred tax assets, net	3,384	3,384
Intangibles, net	1,141	1,141
Goodwill	<u>1,890</u>	<u>1,890</u>
TOTAL ASSETS	<u>\$ 10,465</u>	<u>\$ 10,443</u>
<u>LIABILITIES & STOCKHOLDERS' EQUITY</u>		
Current Liabilities		
Accounts payable and accrued expenses	<u>\$ 775</u>	<u>\$ 603</u>
Total Current Liabilities	775	603
Long-term Liabilities		
Loans payable	1,344	1,539
Total Long-term Liabilities	<u>1,344</u>	<u>1,539</u>
TOTAL	<u>\$ 2,119</u>	<u>\$ 2,142</u>
LIABILITIES		
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
At September 30, 2023 and December 31, 2022:		
Preferred stock, \$.01 par value; 1,000,000 shares authorized; none issued or outstanding	---	---
Common stock, \$.01 par value; 25,000,000 shares authorized; 4,754,436 and 4,754,436 shares in 2023 and 2022, respectively issued		
(4,107,051 shares outstanding at September 30, 2023 and 4,108,051 shares outstanding at December 31, 2022)	47	47
Additional paid-in capital	18,863	18,863
Accumulated deficit	(9,297)	(9,343)
Treasury stock (647,385 shares at September 30, 2023 and 646,385 shares at December 31, 2022), at cost	<u>(1,267)</u>	<u>(1,266)</u>
TOTAL STOCKHOLDERS' EQUITY	<u>8,346</u>	<u>8,301</u>
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	<u>\$ 10,465</u>	<u>\$ 10,443</u>

The Stephan Co
CONSOLIDATED STATEMENTS OF OPERATIONS
Three Months Ended September 30, 2023 and September 30, 2022
(in thousands, except per share data)

	<u>2023</u> (Unaudited)	<u>2022</u> (Unaudited)
Revenue	\$ 2,701	\$ 2,683
Cost of revenue	<u>1,972</u>	<u>1,959</u>
Gross profit	729	724
Selling, general and administrative expenses	678	620
Depreciation and amortization	<u>15</u>	<u>17</u>
Operating income/ (loss)	36	87
Interest Income/ (expenses)	(5)	(13)
Other income/ (expenses), net	<u>19</u>	<u>(16)</u>
Income/ (loss) from operations before taxes	50	58
Income tax benefit (expense)	-	-
NET INCOME/ (LOSS)	<u>\$ 50</u>	<u>\$ 58</u>
Per common share:		
Income from continuing operations	\$ 0.01	\$ 0.01
Income from discontinued operations	<u>---</u>	<u>---</u>
Net income	<u>\$ 0.01</u>	<u>\$ 0.01</u>
Weighted average common shares outstanding	4,107,384	4,108,051

The Stephan Co
CONSOLIDATED STATEMENTS OF OPERATIONS
 Nine Months Ended September 30, 2023 and September 30, 2022
(in thousands, except per share data)

	<u>2023</u> (Unaudited)	<u>2022</u> (Unaudited)
Revenue	\$ 8,001	\$ 7,792
Cost of revenue	<u>5,741</u>	<u>5,492</u>
Gross profit	2,260	2,300
Selling, general and administrative expenses	2,036	1,940
Depreciation and amortization	<u>43</u>	<u>53</u>
Operating income/ (loss)	181	307
Interest Income/ (expenses)	(32)	(31)
Other income/ (expenses), net	<u>20</u>	<u>87</u>
Income/ (loss) from operations before taxes	169	363
Income tax benefit (expense)	-	-
NET INCOME/ (LOSS)	<u>\$ 169</u>	<u>\$ 363</u>
Per common share:		
Income from continuing operations	\$ 0.04	\$ 0.09
Income from discontinued operations	<u>---</u>	<u>---</u>
Net income	<u>\$ 0.04</u>	<u>\$ 0.09</u>
Weighted average common shares outstanding	4,107,829	4,090,273

The Stephan Co
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
 Nine Months Ended September 30, 2023
(in thousands, except share information)

	<u>Shares Issued</u>	<u>Par Value</u>	<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Treasury Stock</u>	<u>Stockholders' Equity</u>
Balance at December 31, 2022 (Unaudited)	4,754,436	\$ 47	\$ 18,863	\$ (9,343)	\$ (1,266)	\$ 8,301
Dividend Paid				(123)		(123)
Stock repurchase					(1)	(1)
Net Income	<u>--</u>	<u>-</u>	<u>-</u>	<u>169</u>	<u>-</u>	<u>169</u>
Balance at September 30, 2023 (Unaudited)	<u>4,754,436</u>	<u>\$ 47</u>	<u>\$ 18,863</u>	<u>\$ (9,297)</u>	<u>\$ (1,267)</u>	<u>\$ 8,346</u>

The Stephan Co
CONSOLIDATED STATEMENTS OF CASH FLOWS
 Nine Months Ended September 30, 2023 and September 30, 2022
(in thousands)

	<u>2023</u> (Unaudited)	<u>2022</u> (Unaudited)
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
NET INCOME	\$ 169	\$ 363
Net cash flows provided by operating activities:		
Deferred income taxes	-	-
Depreciation and amortization	43	53
Stock based compensation		86
Changes in operating assets & liabilities:		
(Increase) decrease in accounts receivable, net	(30)	90
(Increase) decrease in inventories, net	165	(198)
(Increase) decrease in prepaid expenses and other assets	(115)	3
Increase in accounts payable and accrued expenses	<u>171</u>	<u>(389)</u>
Net cash provided by operating activities - continuing operations	403	8
<u>CASH FLOWS FROM INVESTING</u>		
<u>ACTIVITIES</u>		
Cash paid for acquisition		(350)
Purchases of property and equipment	<u>(18)</u>	<u>(15)</u>
Net cash used in investing activities	(18)	(365)
<u>CASH FLOWS FROM FINANCING</u>		
<u>ACTIVITIES</u>		
Dividend Paid	(123)	
Loans received/ repayment, net	<u>(195)</u>	<u>602</u>
Net cash used in financing activities	(318)	602
NET (DECREASE) IN CASH	67	245
CASH AT BEGINNING OF PERIOD	<u>1,203</u>	<u>650</u>
CASH AT END OF THE PERIOD	<u>\$ 1,270</u>	<u>\$ 895</u>

Management's Discussion and Analysis

Business overview

The Stephan Co. (“SPCO”) has six operating brands: Williamsport Bowman, Morris Flamingo, MD Barber, Norva, 614 Barber Supply and Appleton Barber Supply. Our Williamsport Bowman subsidiary is a wholesale barber distributor selling third party and proprietary branded products directly to barbershops. Morris Flamingo is a two-step wholesale distributor selling primarily our proprietary branded barber products to other Barber distributors. MD Barber sells its owned brands and third party brands through various online channels. Norva and Appleton are wholesale barber distributors selling third party products to barbershops. 614 Barber Supply is a wholesale barber supply distributor in the Columbus, OH metropolitan area, has a walk-in showroom location in Hilliard, OH that includes service and repair. SPCO also owns a portfolio of barber brands including LatherKing, Campbell’s, Stephan’s, BarberMate, StixFix, and MD Barber, among others. The company continues to pursue an acquisition program and is actively pursuing barber brands and distribution assets.

SPCO remains focused on growing through organic customer acquisition and through acquisitions of brands and distributors at attractive valuations.

Summary of Q3 2023

(Amount \$'000)	Q3 2023	Q3 2022
Net Income	50	58
Depreciation and Amortization	15	17
Non-recurring Consulation and Legal Expenses	-	30
Acquisition Cost	-	16
Other Income- Insurance	(19)	
Interest (Income)/Expenses	5	13
Adjusted EBITDA	51	134

In Q3 2023, revenues grew around 1%, and net income declined 14%. While demand continues to be soft in the industry, one of our key owned brand products declined in sales as we were not able to meet demand due to component shortages. We are working to overcome this component shortage, but demand is still greater than we can handle given supply constraints. We continue to work to drive down excess inventory as product availability in our supply chain improves. We are focused on optimizing product mix and increasing higher margin repair services.

Our inventory remains at historically elevated levels due to the supply chain challenges of recent years and shifts in end demand in certain categories. We seek to further reduce inventories by streamlining offerings and through promotional activity, generating more cash for the business to reinvest. We seek to return inventory turns to more historical levels in the next 18 months.

Regarding our legal exposure, described in section 7B, our insurance carriers are covering our defense costs and SPCO has been dismissed from some cases. There still remain many lawsuits and could be more in the future that could result in judgements or settlements over the limits of our insurance coverage. We will continue to work to reduce our exposure over time. It is difficult to determine the overall liability of our legal exposure and it is possible that legal judgments may be significant and overwhelm our coverage.

On August 06, 2023, The Stephan Co approved a special dividend of 3 cents per share to the shareholders of record on August 14, 2023. The company also resumed open market share repurchases.

Results of Operations Three Months Ended September 30, 2023 vs. Three Months Ended September 30, 2022

Reported revenues for the three months ended September 30, 2023 were \$2,701,000 compared to \$2,683,000 for the three months ended September 30, 2022 or an increase in revenue of approximately 1%. Gross profit margins remained at 27% in both periods. Adjusted SG&A expenses increased year over year due to higher transactional e-commerce fees and other selling expenses.

Liquidity and Capital Resources

We held cash and cash equivalents of \$1,271,000 on September 30, 2023. Our cash was maintained in FDIC and NCUA-insured bank accounts, and the majority is earning competitive rates of interest.

Our continuing operations provided cash flows of approximately \$403,000 for the nine months ended September 30, 2023. We have adequate liquidity and do not foresee the need for additional capital for day-to-day operations in the next year and maintained approximately \$1.8 million in working capital and had total net worth of \$8.3 million.

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

Nine Months Ended September 30, 2023 and September 30, 2022
(in thousands)

	<u>2023</u>	<u>2022</u>
Sales	8,001	7,792
<i>% change</i>	2.7%	14.4%
Gross profit	2,260	2,300
<i>% of sales</i>	28.2%	29.5%
SG&A	2,036	1,940
<i>% of sales</i>	25.4%	24.9%
Adjusted EBITDA (3)	224	491
<i>% of sales</i>	2.8%	6.3%
Capex	18	15
Working capital (1)	1,860	2,345
Invested capital (2)	1,987	2,828
LTM Adjusted EBITDA	219	527
Cash ROIC	11.0%	18.6%

Note: (1) Working capital = Inventory plus AR less AP

(2) Invested capital = total tangible assets less cash and payables and accruals.

(3) Adjusted EBITDA= Net Income plus depreciation, interest, taxes and one time expenses minus one time income

	YTD 2023	YTD 2022
Net Income	169	362
Depreciation & Amortization	43	53
Board of Directors stock grants expenses	-	86
Non-recurring legal and consultation expenses	-	71
Interest expenses	32	29
Other (Income)/Expenses	(20)	16
Other (Income)- ERC Credit	-	(101)
Other (Income)- Trademark sale	-	(25)
Adjusted EBITDA	224	491

Please read our Audited 2020 Annual Report, which can be found at www.otcmarkets.com (symbol: SPCO.PK), for further information about the Company's financial results and future plans.

10) Issuer Certification

Principal Executive Officer:

I, Henry Jacobi, certify that:

1. I have reviewed this quarterly disclosure statement of The Stephan Co.
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

November 13, 2023

/s/ Henry Jacobi

[CEO's Signature]