# The Stephan Co.
# Second Quarter Report
# June 30, 2015

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Financial results are unaudited unless otherwise indicated.

The Stephan Co
**CONSOLIDATED BALANCE SHEETS**
At June 30, 2015 and December 31, 2014
*(In thousands, except share and per share amounts)*

| | 2015 | 2014 Audited |
|---|---|---|
| ASSETS | | |
| **Current Assets** | | |
| Cash and cash equivalents | $ 1,256 | $ 1,721 |
| Accounts receivable, net | 230 | 147 |
| Inventories | 820 | 908 |
| Prepaid expenses and other current assets | 148 | 94 |
| Short-term assets of discontinued operations | 562 | 1,986 |
| Total Current Assets | 3,016 | 4,856 |
| Other assets, net | --- | 12 |
| Property, plant, and equipment, net | 198 | 137 |
| Goodwill, net | 1,395 | 1,395 |
| **TOTAL ASSETS** | $ 4,609 | $ 6,400 |
| LIABILITIES & STOCKHOLDERS' EQUITY | | |
| **Current Liabilities** | | |
| Accounts payable and accrued expenses | $ 407 | $ 127 |
| Short-term liabilities of discontinued operations | 41 | 1,899 |
| Total Current Liabilities | 448 | 2,026 |
| Deferred income tax liability | 140 | 140 |
| TOTAL LIABILITIES | 588 | 2,166 |
| COMMITMENTS AND CONTINGENCIES | | |
| STOCKHOLDERS' EQUITY | | |
| At June 30, 2015 and December 31, 2014: | | |
| Preferred stock, $.01 par value; 1,000,000 shares authorized; none issued or outstanding | --- | --- |
| Common stock, $.01 par value; 25,000,000 shares authorized; 4,389,611 shares issued (4,049,075 shares outstanding) | 44 | 44 |
| Additional paid-in capital | 18,174 | 18,174 |
| Accumulated deficit | (13,334) | (13,121) |
| Treasury stock (340,536 shares) at cost | (863) | (863) |
| TOTAL STOCKHOLDERS' EQUITY | 4,021 | 4,234 |
| TOTAL LIABILITIES & STOCKHOLDERS EQUITY | $ 4,609 | $ 6,400 |

The Stephan Co
**CONSOLIDATED STATEMENTS OF OPERATIONS**
Three Months Ended June 30, 2015 and June 30, 2014
*(in thousands, except per share data)*

| | 2015 | 2014 |
|---|---|---|
| Revenue | $ 2,060 | $ 2,343 |
| Cost of revenue | 1,451 | 1,739 |
| Gross profit | 609 | 604 |
| Selling, general and administrative expenses | 629 | 716 |
| Depreciation and amortization | 1 | 4 |
| Operating loss | (21) | (116) |
| Interest income, net | --- | --- |
| Loss from continuing operations before income taxes | (21) | (116) |
| Provision for income taxes | 5 | 5 |
| Loss from continuing operations | (26) | (121) |
| Income (loss) from discontinued operations, net of tax of $0 in 2015 and 2014 | 139 | (130) |
| NET INCOME (LOSS) | $ 113 | $ (251) |
| Per common share: | | |
| Loss from continuing operations | $ (0.00) | $ (0.03) |
| Income (loss) from discontinued operations | 0.03 | (0.03) |
| Net income (loss) | $ 0.03 | $ (0.06) |
| Weighted average common shares outstanding | 4,049,075 | 4,049,075 |

The Stephan Co
**CONSOLIDATED STATEMENTS OF OPERATIONS**
Six Months Ended June 30, 2015 and June 30, 2014
*(in thousands, except per share data)*

| | 2015 | 2014 |
|---|---|---|
| Revenue | $ 4,119 | $ 4,772 |
| Cost of revenue | 2,879 | 3,433 |
| Gross profit | 1,240 | 1,339 |
| Selling, general and administrative expenses | 1,180 | 1,336 |
| Depreciation and amortization | 2 | 8 |
| Operating income (loss) | 58 | (5) |
| Interest income, net | --- | 1 |
| Income (loss) from continuing operations before income taxes | 58 | (4) |
| Provision for income taxes | 5 | 10 |
| Income (loss) from continuing operations | 53 | (14) |
| Loss from discontinued operations, net of tax of $0 in 2014 and 2013 | (266) | (331) |
| NET LOSS | $ (213) | $ (345) |
| | | |
| Per common share: | | |
| Income (loss) from continuing operations | $ 0.01 | $ (0.00) |
| Loss from discontinued operations | (0.06) | (0.08) |
| Net loss | $ (0.05) | $ (0.08) |
| | | |
| Weighted average common shares outstanding | 4,049,075 | 4,049,075 |

The Stephan Co

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

Six Months Ended June 30, 2015

*(in thousands, except share information)*

| | Shares Issued | Par Value | Additional Paid-in Capital | Accumulated Deficit | Treasury Stock | Stockholders' Equity |
|---|---|---|---|---|---|---|
| Balance at December 31, 2014 | 4,389,611 | $ 44 | $ 18,174 | $ (13,121) | $ (863) | $ 4,234 |
| Net loss | --- | --- | --- | (213) | --- | (213) |
| Balance at June 30, 2015 | 4,389,611 | $ 44 | $ 18,174 | $ (13,334) | $ (863) | $ 4,021 |

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**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Six Months Ended June 30, 2015 and June 30, 2014

*(in thousands)*

| | 2015 | 2014 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| NET LOSS | $ (213) | $ (345) |
| Loss from discontinued operations, net of tax | (266) | (331) |
| Income (loss) from continuing operations | 53 | (14) |
| Net cash flows provided by (used in) operating activities: | | |
| Depreciation and amortization | 2 | 8 |
| Stock option compensation | --- | 3 |
| Changes in operating assets & liabilities: | | |
| (Increase) decrease in accounts receivable, net | (51) | 2 |
| Decrease in inventories | 87 | 309 |
| (Increase) decrease in prepaid expenses and other assets | (5) | 45 |
| Increase (decrease) in accounts payable and accrued expenses | 169 | (279) |
| Net cash provided by operating activities - continuing operations | 255 | 74 |
| Net cash used in operating activities - discontinued operations | (1,524) | (770) |
| Net cash used in operating activities | (1,269) | (696) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchases of property, plant, and equipment | (63) | (14) |
| Net cash used in investing activities - continuing operations | (63) | (14) |
| Net cash provided by (used in) investing activities - discontinued operations | 867 | (105) |
| Net cash provided by (used in) investing activities | 804 | (119) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Net cash used in financing activities - continued and discontinued operations | --- | (24) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | (465) | (839) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 1,721 | 1,958 |
| CASH AND CASH EQUIVALENTS AT END OF EACH PERIOD | $ 1,256 | $ 1,119 |

## Liquidity and Capital Resources

We had cash and cash equivalents of $1.3 million at June 30, 2015. Our cash was maintained in FDIC-insured bank accounts and collateralized short-term investments.

Our Company consumed cash flow of approximately $465,000 in the six months ended June 30, 2015. Significant use and sources of cash during this period include, but are not limited to 1) final settlement payment of $1.5 million related to the longstanding Sorbie legal matter which was accrued as of December 31, 2014 2) sale of our Tampa manufacturing facility which generated proceeds of approximately $350,000 and 3) sale of several of our legacy product lines which generated proceeds of approximately $430,000.

We have adequate liquidity and do not foresee the need for additional capital for day-to-day operations in the next year. At June 30, 2014, we had approximately $19.0 million of net operating loss ("NOL") carryforwards available to offset future taxable income, maintain approximately $2.4 million in working capital and have tangible net worth of $2.6 million.

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

## Results of Operations Three Months Ended June 30, 2015 vs. Three Months Ended June 30, 2014

As discussed in our Annual Report for 2014 which can be found at www.otcmarkets.com (symbol: SPCO.PK), during November 2014, the Company's Board of Directors made a difficult decision to exit the manufacturing side of our business and discontinue operations within our Brands operating segment as it determined the inherent risk associated with continuing operations outweighed the future benefit. The Company is accounting for Brand operations as Discontinued Operations in accordance with ASU 2014-08 with an effective date of November 2014. Therefore, all current and prior period operations of Brands are classified as Discontinued Operations. As a result of these changes, activities within our Distributor segment and corporate overhead costs are the sole operations represented in Continuing Operations.

Overall revenues for the three months ended June 30, 2015 were $2,060,000 compared to $2,343,000 for the three months ended June 30, 2014. This $283,000 decrease, or 12%, is primarily a result of decreased revenues within our Williamsport/Bowman operating unit which experienced a $288,000 decrease, or 14.8%.

Selling, General and Administrative expenses for the quarter decreased by approximately $87,000, or 12%, as the Company incurred less in legal expenses with respect to its legacy litigation and to a larger degree began to realize ongoing savings as part of its restructuring it began in 2014.

## Results of Operations Six Months Ended June 30, 2015 vs. Six Months Ended June 30, 2014

Overall revenues for the six months ended June 30, 2015 were $4,119,000 compared to $4,772,000 for the six months ended June 30, 2014. This $653,000 decrease, or 13.7%, is primarily a result of a the aforementioned reduction in revenues of our Williamsport/Bowman operating unit.

Selling, General and Administrative expenses for the six months ended decreased by approximately $156,000, or 12%, as it began to realize ongoing savings as part of the restructuring it began in 2014. Please read our Audited Annual Report for 2014 for further information about the Company's financial results and future plans.