The Stephan Co.
Third Quarter Report
September 30, 2015

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Financial results are unaudited unless otherwise indicated.

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CONSOLIDATED BALANCE SHEETS

At September 30, 2015 and December 31, 2014

(In thousands, except share and per share amounts)

	2015	2014 Audited
ASSETS		
Current Assets		
Cash and cash equivalents	$ 260	$ 1,721
Accounts receivable, net	157	147
Inventories	693	908
Prepaid expenses and other current assets	203	94
Short-term assets of discontinued operations	581	1,986
Total Current Assets	1,894	4,856
Other assets, net	---	12
Property, plant, and equipment, net	221	137
Goodwill, net	1,395	1,395
TOTAL ASSETS	$ 3,510	$ 6,400
LIABILITIES & STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	$ 382	$ 127
Short-term liabilities of discontinued operations	25	1,899
Total Current Liabilities	407	2,026
Deferred income tax liability	140	140
TOTAL LIABILITIES	547	2,166
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
At September 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	(14,392)	(13,121)
Treasury stock (340,536 shares) at cost	(863)	(863)
TOTAL STOCKHOLDERS' EQUITY	2,963	4,234
TOTAL LIABILITIES & STOCKHOLDERS EQUITY	$ 3,510	$ 6,400

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CONSOLIDATED STATEMENTS OF OPERATIONS
Three Months Ended September 30, 2015 and September 30, 2014
(in thousands, except per share data)

	2015	2014
Revenue	$ 1,890	$ 2,102
Cost of revenue	1,326	1,509
Gross profit	564	593
Selling, general and administrative expenses	1,283	556
Depreciation and amortization	6	4
Operating (loss) income	(725)	33
Interest income, net	---	---
(Loss) income from continuing operations before income taxes	(725)	33
Provision for income taxes	5	5
(Loss) income from continuing operations	(730)	28
(Loss) income from discontinued operations, net of tax of $0 in 2015 and 2014	(24)	1,297
NET (LOSS) INCOME	$ (754)	$ 1,325
Per common share:		
(Loss) income from continuing operations	$ (0.18)	$ 0.01
(Loss) income from discontinued operations	(0.01)	0.32
Net (loss) income	$ (0.19)	$ 0.33
Weighted average common shares outstanding	4,049,075	4,049,075

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CONSOLIDATED STATEMENTS OF OPERATIONS
Nine Months Ended September 30, 2015 and September 30, 2014
(in thousands, except per share data)

	2015	2014
Revenue	$ 6,008	$ 6,874
Cost of revenue	4,206	4,942
Gross profit	1,802	1,932
Selling, general and administrative expenses	2,463	1,892
Depreciation and amortization	8	12
Operating (loss) income	(669)	28
Interest income, net	---	1
(Loss) income from continuing operations before income taxes	(669)	29
Provision for income taxes	10	15
(Loss) income from continuing operations	(679)	14
(Loss) income from discontinued operations, net of tax of $0 in 2015 and 2014	(289)	966
NET (LOSS) INCOME	$ (968)	$ 980
Per common share:		
(Loss) income from continuing operations	$ (0.17)	$ 0.00
(Loss) income from discontinued operations	(0.07)	0.24
Net (loss) income	$ (0.24)	$ 0.24
Weighted average common shares outstanding	4,049,075	4,049,075

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Nine Months Ended September 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
Dividends paid	---	---	---	(303)	---	(303)
Net loss	---	---	---	(968)	---	(968)
Balance at September 30, 2015	4,389,611	$ 44	$ 18,174	$ (14,392)	$ (863)	$ 2,963

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CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine Months Ended September 30, 2015 and September 30, 2014

(in thousands)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
NET (LOSS) INCOME	$ (968)	$ 980
(Loss) income from discontinued operations, net of tax	(289)	966
(Loss) income from continuing operations	(679)	14
Net cash flows provided by (used in) operating activities:		
Depreciation and amortization	8	12
Stock option compensation	---	3
Changes in operating assets & liabilities:		
(Increase) decrease in accounts receivable, net	(10)	51
Decrease in inventories	215	318
(Increase) decrease in prepaid expenses and other assets	(59)	23
Increase (decrease) in accounts payable and accrued expenses	45	(371)
Net cash (used in) provided by operating activities - continuing operations	(480)	50
Net cash used in operating activities - discontinued operations	(1,453)	(1,383)
Net cash used in operating activities	(1,933)	(1,333)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant, and equipment	(92)	(27)
Net cash used in investing activities - continuing operations	(92)	(27)
Net cash provided by investing activities - discontinued operations	867	1,649
Net cash provided by investing activities	775	1,622
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(303)	---
Net cash used in financing activities - continuing operations	(303)	---
Net cash used in financing activities - discontinued operations	---	(25)
Net cash used in financing activities	(303)	(25)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,461)	(264)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,721	1,958
CASH AND CASH EQUIVALENTS AT END OF EACH PERIOD	$ 260	$ 2,222

Liquidity and Capital Resources

We had cash and cash equivalents of $260,000 at September 30, 2015. Our cash was maintained in FDIC-insured bank accounts and collateralized short-term investments.

Our Company consumed cash flow of approximately $1.46 million in the nine months ended September 30, 2015. Significant uses 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 3) sale of several legacy product lines which generated proceeds of approximately $430,000 4) payment to our former Chief Executive Officer ("CEO") for the termination of his employment agreement as part of the company's restructuring plan of $630,000, of which an additional $90,000 is payable in January 2016 and 5) dividend payment of $303,000 made to our shareholders in August 2015.

We have adequate liquidity and do not foresee the need for additional capital for day-to-day operations in the next year. At September 30, 2015, we have in excess of $19 million in net operating loss ("NOL") carryforwards available to offset future taxable income, maintain approximately $1.5 million in working capital and have tangible net worth of $1.6 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 September 30, 2015 vs. Three Months Ended September 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 September 30, 2015 were $1,890,000 compared to $2,102,000 for the three months ended September 30, 2014. This $212,000 decrease, or 10.1%, is primarily a result of decreased revenues within our Williamsport/Bowman operating unit which experienced a $151,000 decrease, or 8.8%.

Selling, General and Administrative expenses for the quarter increased by approximately $727,000, or 131%, as the Company incurred one-time costs related to the aforementioned termination of its CEO approximating $729,000 during the quarter ended September 30, 2015.

Results of Operations Nine Months Ended September 30, 2015 vs. Nine Months Ended September 30, 2014

Overall revenues for the nine months ended September 30, 2015 were $6,008,000 compared to $6,874,000 for the nine months ended September 30, 2014. This $866,000 decrease, or 12.6%, is primarily a result of a the aforementioned reduction in revenues of our Williamsport/Bowman operating unit.

Selling, General and Administrative expenses for the nine months ended increased by approximately $571,000, or 30.1%, as the Company incurred one-time costs related to the aforementioned termination of its CEO approximating $729,000. Adjusting for this one-time cost, Selling, General and Administrative expenses for this period decreased by $158,000, or 8.4%, as the Company continued 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.