The Stephan Co.
First Quarter Report
March 31, 2016

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Financial results are unaudited unless otherwise indicated.

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CONSOLIDATED BALANCE SHEETS

At March 31, 2016 and December 31, 2015

(In thousands, except share and per share amounts)

	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents	$ 1,072	$ 1,091
Accounts receivable, net	242	223
Inventories	697	738
Prepaid expenses and other current assets	83	62
Total Current Assets	2,094	2,144
Other assets, net	2	9
Property and equipment, net	319	331
Goodwill, net	1,395	1,395
TOTAL ASSETS	$ 3,810	$ 3,879
LIABILITIES & STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	$ 483	$ 376
Short-term liabilities of discontinued operations	7	112
Total Current Liabilities	490	488
Deferred income tax liability	140	140
TOTAL LIABILITIES	630	628
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
At December 31, 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	(14,176)	(14,104)
Treasury stock (340,536 shares) at cost	(863)	(863)
TOTAL STOCKHOLDERS' EQUITY	3,179	3,251
TOTAL LIABILITIES & STOCKHOLDERS EQUITY	$ 3,810	$ 3,879

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CONSOLIDATED STATEMENTS OF OPERATIONS
Three Months Ended March 31, 2016 and March 31, 2015
(in thousands, except per share data)

	2016	2015
Revenue	$ 2,242	$ 2,059
Cost of revenue	1,554	1,428
Gross profit	688	631
Selling, general and administrative expenses	437	550
Depreciation and amortization	13	1
Operating (loss) income	238	80
Other income, net	---	---
(Loss) income from continuing operations before income taxes	238	80
Provision for income taxes	---	---
(Loss) income from continuing operations	238	80
(Loss) income from discontinued operations, net of tax of $0 in 2015 and 2014	---	(406)
NET (LOSS) INCOME	$ 238	$ (326)
Per common share:		
(Loss) income from continuing operations	$ 0.06	$ 0.02
(Loss) income from discontinued operations	---	(0.10)
Net (loss) income	$ 0.06	$ (0.08)
Weighted average common shares outstanding	4,049,075	4,049,075

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Quarter Ended March 31, 2016

(in thousands, except share information)

	Shares Issued	Par Value	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Stockholders' Equity
Balance at December 31, 2015	4,389,611	$ 44	$ 18,174	$ (14,110)	$ (863)	$ 3,251
Dividends paid	---	---	---	(304)	---	(303)
Net loss	---	---	---	238	---	244
Balance at March 31, 2016	4,389,611	$ 44	$ 18,174	$ (14,176)	$ (863)	$ 3,192

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CONSOLIDATED STATEMENTS OF CASH FLOWS

Three Months Ended March 31, 2016 and March 31, 2015

(in thousands)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
NET (LOSS) INCOME	$ 238	$ (326)
(Loss) income from discontinued operations, net of tax	---	406
(Loss) income from continuing operations	238	80
Net cash flows provided by (used in) operating activities:		
Depreciation and amortization	13	1
Changes in operating assets & liabilities:		
(Increase) decrease in accounts receivable, net	(19)	(20)
Decrease in inventories	70	(65)
(Increase) decrease in prepaid expenses and other assets	(23)	45
Increase (decrease) in accounts payable and accrued expenses	108	13
Net cash (used in) provided by operating activities - continuing operations	387	54
Net cash used in operating activities - discontinued operations	(105)	57
Net cash used in operating activities	283	(3)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	---	(34)
Net cash used in investing activities - continuing operations	---	(34)
Net cash provided by investing activities - discontinued operations	---	380
Net cash provided by investing activities	---	346
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(304)	---
Net cash used in financing activities - continuing operations	(304)	---
Net cash used in financing activities - discontinued operations	---	---
Net cash used in financing activities	(304)	---
NET DECREASE IN CASH AND CASH EQUIVALENTS	(21)	343
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,093	1,721
CASH AND CASH EQUIVALENTS AT END OF EACH QUARTER	$ 1,072	$ 2,064

Liquidity and Capital Resources

We had cash and cash equivalents of $1,072,403 at March 31, 2016. Our cash was maintained in FDIC-insured bank accounts and collateralized short-term investments.

Our continuing operations provided cash flow of approximately $388,000 for the three months ended March 31, 2016. During the first quarter of the year, we distributed dividends amounting to $304,000 and made the $105,000 final payment to our former Chief Executive and Chief Finance Officers for the termination of their employment in 2015.

The Company also announced on April 22, 2016, its intent to repurchase 500,000 shares of common stock. Subsequent to the first quarter, we have repurchased 201,000 shares of common stock for $231,100 which is approximately 5% of outstanding shares.

We have adequate liquidity and do not foresee the need for additional capital for day-to-day operations in the next year. At March 31, 2016, we have in excess of $19.1 million in net operating loss ("NOL") carry forwards available to offset future taxable income, maintain approximately $1.6 million in working capital and have tangible net worth of $2.4 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 March 31, 2016 vs. Three Months Ended March 31, 2015

As stated in our Preliminary Report for the year 2015 which can be found at www.otcmarkets.com (symbol: SPCO.PK), during 2015 the Company has liquidated the assets and liabilities of its discontinued operations and has completed the Company's reorganization thereby retaining its distribution business. The results of operations reported for the three months ended March 31, 2016 mainly represent the Company's distribution business.

Overall revenues for the three months ended March 31, 2016 were $2,242,000 compared to $2,059,000 for the three months ended March 31, 2015. Both of our Williamsport and Morris Flamingo operating units reported a combined increase in revenues of $183,000 increase, or 8.9%.

Selling, General and Administrative expenses for the quarter decreased by approximately $113,000, or 20.5%, as the Company incurred less corporate overhead costs during the quarter ended March 31, 2016 and as a result of prior year's restructuring efforts.

Please read our Audited 2014 Annual Report and Unaudited 2015 Annual Report for further information about the Company's financial results and future plans.