

The Stephan Co.  
Second Quarter Report  
June 30, 2016

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Financial results are unaudited unless otherwise indicated.

The Stephan Co  
**CONSOLIDATED BALANCE SHEETS**  
 At June 30, 2016 and December 31, 2015  
*(In thousands, except share and per share amounts)*

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 922	\$ 1,093
Accounts receivable, net	185	223
Inventories	733	768
Prepaid expenses and other current assets	<u>93</u>	<u>62</u>
Total Current Assets	1,933	2,146
Other assets, net	8	---
Property and equipment, net	307	331
Goodwill, net	<u>1,395</u>	<u>1,395</u>
<b>TOTAL ASSETS</b>	<u>\$ 3,643</u>	<u>\$ 3,872</u>
 <b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 423	\$ 376
Short-term liabilities of discontinued operations	<u>---</u>	<u>112</u>
Total Current Liabilities	423	488
Deferred income tax liability	<u>140</u>	<u>140</u>
<b>TOTAL LIABILITIES</b>	563	628
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY</b>		
At June 30, 2016 and December 31, 2015:		
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 (3,847,675 shares outstanding at June 30, 2016 and 4,049,075 shares outstanding at December 31, 2015)	44	44
Additional paid-in capital	18,174	18,174
Accumulated deficit	(14,044)	(14,110)
Treasury stock (541,936 shares at June 30, 2016 and 340,536 shares at December 31, 2015) at cost	<u>(1,094)</u>	<u>(863)</u>
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<u>3,080</u>	<u>3,245</u>
<b>TOTAL LIABILITIES &amp; STOCKHOLDERS EQUITY</b>	<u>\$ 3,643</u>	<u>\$ 3,872</u>

The Stephan Co  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
Three Months Ended June 30, 2016 and June 30, 2015  
*(in thousands, except per share data)*

	<u>2016</u>	<u>2015</u>
Revenue	\$ 2,030	\$ 2,060
Cost of revenue	<u>1,464</u>	<u>1,451</u>
Gross profit	566	609
Selling, general and administrative expenses	421	629
Depreciation and amortization	<u>13</u>	<u>1</u>
Operating (loss) income	132	(21)
Other income, net	<u>---</u>	<u>---</u>
(Loss) income from continuing operations before income taxes	132	(21)
Provision for income taxes	<u>---</u>	<u>5</u>
(Loss) income from continuing operations	132	(26)
(Loss) income from discontinued operations	<u>---</u>	<u>139</u>
<b>NET (LOSS) INCOME</b>	<u><u>\$ 132</u></u>	<u><u>\$ 113</u></u>
Per common share:		
(Loss) income from continuing operations	\$ 0.03	\$ ---
(Loss) income from discontinued operations	<u>---</u>	<u>0.03</u>
Net (loss) income	<u><u>\$ 0.03</u></u>	<u><u>\$ 0.03</u></u>
Weighted average common shares outstanding	3,982,008	4,049,075

The Stephan Co  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
Six Months Ended June 30, 2016 and June 30, 2015  
*(in thousands, except per share data)*

	<u>2016</u>	<u>2015</u>
Revenue	\$ 4,272	\$ 4,119
Cost of revenue	<u>3,019</u>	<u>2,879</u>
Gross profit	1,253	1,240
Selling, general and administrative expenses	858	1,180
Depreciation and amortization	<u>25</u>	<u>2</u>
Operating (loss) income	370	58
Other income, net	<u>---</u>	<u>---</u>
(Loss) income from continuing operations before income taxes	370	58
Provision for income taxes	<u>---</u>	<u>5</u>
(Loss) income from continuing operations	370	53
(Loss) income from discontinued operations	<u>---</u>	<u>(266)</u>
<b>NET (LOSS) INCOME</b>	<u><u>\$ 370</u></u>	<u><u>\$ (213)</u></u>
Per common share:		
(Loss) income from continuing operations	\$ 0.09	\$ 0.01
(Loss) income from discontinued operations	<u>---</u>	<u>(0.06)</u>
Net (loss) income	<u><u>\$ 0.09</u></u>	<u><u>\$ (0.05)</u></u>
Weighted average common shares outstanding	3,982,008	4,049,075

The Stephan Co  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
Six Months Ended June 30, 2016  
*(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, 2015	4,389,611	\$ 44	\$ 18,174	\$ (14,110)	\$ (863)	\$ 3,245
Stock buyback, 201,400 shares	---	---	---	---	(231)	(231)
Dividends paid	---	---	---	(304)	---	(304)
Net Income	---	---	---	370	---	370
Balance at June 30, 2016	<u>4,389,611</u>	<u>\$ 44</u>	<u>\$ 18,174</u>	<u>\$ (14,044)</u>	<u>\$ (1,094)</u>	<u>\$ 3,080</u>

The Stephan Co  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
Six Months Ended June 30, 2016 and June 30, 2015  
*(in thousands)*

	<u>2016</u>	<u>2015</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
NET (LOSS) INCOME	\$ 370	\$ (213)
(Loss) income from discontinued operations, net of tax	<u>---</u>	<u>266</u>
(Loss) income from continuing operations	370	53
Net cash flows provided by (used in) operating activities:		
Depreciation and amortization	25	2
Changes in operating assets & liabilities:		
(Increase) decrease in accounts receivable, net	37	(51)
(Increase) decrease in inventories	35	87
(Increase) decrease in prepaid expenses and other assets	(39)	(5)
Increase (decrease) in accounts payable and accrued expenses	<u>47</u>	<u>169</u>
Net cash (used in) provided by operating activities - continuing operations	476	255
Net cash used in operating activities - discontinued operations	<u>(112)</u>	<u>(1,524)</u>
Net cash used in operating activities	364	(1,269)
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Purchases of property and equipment	<u>---</u>	<u>(63)</u>
Net cash used in investing activities - continuing operations	---	(63)
Net cash provided by investing activities - discontinued operations	<u>---</u>	<u>867</u>
Net cash provided by investing activities	---	804
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>		
Dividends paid	(304)	---
Stock repurchased	<u>(231)</u>	<u>---</u>
Net cash used in financing activities - continuing operations	(535)	---
Net cash used in financing activities - discontinued operations	<u>---</u>	<u>---</u>
Net cash used in financing activities	(535)	---
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(171)	(465)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,093</u>	<u>1,721</u>
CASH AND CASH EQUIVALENTS AT END OF EACH PERIOD	<u>\$ 922</u>	<u>\$ 1,256</u>

## Management's Discussion and Analysis

### **Liquidity and Capital Resources**

We had cash and cash equivalents of \$922,000 at June 30, 2016. Our cash was maintained in FDIC-insured bank accounts and collateralized short-term investments.

Our continuing operations provided cash flow of approximately \$364,000 for the six months ended June 30, 2016. During the first half of the year, we paid \$90,000, net of applicable taxes, to our former Chief Executive Officer for the termination of his employment in 2015; we distributed dividends amounting to \$304,000 to our shareholders in February 2016; and repurchased 201,000 shares of common stock for \$231,600 which is approximately 5% of outstanding shares. The Company authorized the repurchase of 500,000 shares of common stock on April 22, 2016.

Additionally, in August 2016, the Company announced the dividend payment of \$0.075 per share to be paid on August 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 June 30, 2016, we have in excess of \$18.8 million in net operating loss ("NOL") carry forwards available to offset future taxable income, maintained approximately \$1.5 million in working capital and have tangible net worth of \$2.2 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, 2016 vs. Three Months Ended June 30, 2015**

As stated in our Preliminary Report for the year 2015 which can be found at [www.otcmartets.com](http://www.otcmartets.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 June 30, 2016 were \$2,030,000 compared to \$2,060,000 for the three months ended June 30, 2015. Both of our Williamsport and Morris Flamingo operating units reported a combined decrease in revenues of \$30,000, or 1.5%.

Selling, General and Administrative expenses for the quarter decreased by approximately \$208,000, or 33.0%, as the Company continues to incur less corporate overhead costs during the quarter ended June 30, 2016 and as a result of prior year's restructuring efforts.

### **Results of Operations Six Months Ended June 30, 2016 vs. Six Months Ended June 30, 2015**

Overall revenues for the six months ended June 30, 2016 were \$4,272,000 compared to \$4,119,000 for the six months ended June 30, 2015. This \$153,000 increase, or 3.7%, is a result of the increased revenues in both of our Williamsport Bowman and Morris Flamingo operating units which contributed 68% and 32%, respectively, of the increase in revenues.

Selling, General and Administrative expenses for the six months decreased by approximately \$322,000, or 27.3%, due to reduction in the Company's corporate overhead costs described above.