

The Stephan Co.
First Quarter Report
March 31, 2016

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Financial results are unaudited unless otherwise indicated.

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

| | <u>2016</u> (Unaudited) | <u>2015</u> (Unaudited) |
|---|----------------------------|----------------------------|
| <u>ASSETS</u> | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 1,072 | \$ 1,093 |
| Accounts receivable, net | 241 | 223 |
| Inventories | 697 | 768 |
| Prepaid expenses and other current assets | <u>83</u> | <u>62</u> |
| Total Current Assets | 2,093 | 2,146 |
| Other assets, net | 2 | --- |
| Property and equipment, net | 319 | 331 |
| Goodwill, net | <u>1,395</u> | <u>1,395</u> |
| TOTAL ASSETS | <u>\$ 3,809</u> | <u>\$ 3,872</u> |
| <u>LIABILITIES & STOCKHOLDERS' EQUITY</u> | | |
| Current Liabilities | | |
| Accounts payable and accrued expenses | \$ 483 | \$ 376 |
| Short-term liabilities of discontinued operations | <u>7</u> | <u>112</u> |
| Total Current Liabilities | 490 | 488 |
| Deferred income tax liability | <u>140</u> | <u>140</u> |
| TOTAL LIABILITIES | 630 | 628 |
| COMMITMENTS AND CONTINGENCIES | | |
| STOCKHOLDERS' EQUITY | | |
| At March 31, 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 (4,049,075 shares outstanding) | 44 | 44 |
| Additional paid-in capital | 18,174 | 18,174 |
| Accumulated deficit | (14,176) | (14,110) |
| Treasury stock (340,536 shares), at cost | <u>(863)</u> | <u>(863)</u> |
| TOTAL STOCKHOLDERS' EQUITY | <u>3,179</u> | <u>3,245</u> |
| TOTAL LIABILITIES & STOCKHOLDERS' EQUITY | <u>\$ 3,809</u> | <u>\$ 3,872</u> |

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

| | <u>2016</u> (Unaudited) | <u>2015</u> (Unaudited) |
|---|-----------------------------------|-----------------------------------|
| Revenue | \$ 2,131 | \$ 2,059 |
| Cost of revenue | <u>1,443</u> | <u>1,428</u> |
| Gross profit | 688 | 631 |
| Selling, general and administrative expenses | 437 | 550 |
| Depreciation and amortization | <u>13</u> | <u>1</u> |
| Operating income (loss) | 238 | 80 |
| Other income, net | <u>---</u> | <u>---</u> |
| Income (loss) from continuing operations before income taxes | 238 | 80 |
| Provision for income taxes | <u>---</u> | <u>---</u> |
| Income (loss) from continuing operations | 238 | 80 |
| Income (loss) from discontinued operations, net of \$0 tax in 2016 and 2015 | <u>---</u> | <u>(406)</u> |
| NET (LOSS) INCOME | <u>\$ 238</u> | <u>\$ (326)</u> |
| Per common share: | | |
| Income (loss) from continuing operations | \$ 0.06 | \$ 0.02 |
| Income (loss) from discontinued operations | <u>---</u> | <u>(0.10)</u> |
| Net income (loss) | <u>\$ 0.06</u> | <u>\$ (0.08)</u> |
| Weighted average common shares outstanding | 4,049,075 | 4,049,075 |

The Stephan Co
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Quarter Ended March 31, 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 (Unaudited) | 4,389,611 | \$ 44 | \$ 18,174 | \$ (14,110) | \$ (863) | \$ 3,245 |
| Dividends paid | --- | --- | --- | (304) | --- | (304) |
| Net Income | --- | --- | --- | 238 | --- | 238 |
| Balance at March 31, 2016 (Unaudited) | <u>4,389,611</u> | <u>\$ 44</u> | <u>\$ 18,174</u> | <u>\$ (14,176)</u> | <u>\$ (863)</u> | <u>\$ 3,179</u> |

The Stephan Co
CONSOLIDATED STATEMENTS OF CASH FLOWS
Three Months Ended March 31, 2016 and March 31, 2015
(in thousands)

| | <u>2016</u> (Unaudited) | <u>2015</u> (Unaudited) |
|---|-----------------------------------|-----------------------------------|
| <u>CASH FLOWS FROM OPERATING ACTIVITIES</u> | | |
| NET INCOME (LOSS) | \$ 238 | \$ (326) |
| Income (Loss) from discontinued operations, net of tax | <u>---</u> | <u>406</u> |
| Income (Loss) 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 | (18) | (20) |
| (Increase) decrease in inventories | 71 | (65) |
| (Increase) decrease in prepaid expenses and other assets | (23) | 45 |
| Increase (decrease) in accounts payable and accrued expenses | <u>107</u> | <u>13</u> |
| Net cash provided by (used in) operating activities - continuing operations | 388 | 54 |
| Net cash provided by (used in) operating activities - discontinued operations | <u>(105)</u> | <u>57</u> |
| Net cash provided by (used in) operating activities | 283 | (3) |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES</u> | | |
| Purchases of property and equipment | <u>---</u> | <u>(34)</u> |
| Net cash provided by (used in) investing activities - continuing operations | --- | (34) |
| Net cash provided by (used in) investing activities - discontinued operations | <u>---</u> | <u>380</u> |
| Net cash provided by (used in) investing activities | --- | 346 |
| <u>CASH FLOWS FROM FINANCING ACTIVITIES</u> | | |
| Dividends paid | <u>(304)</u> | <u>---</u> |
| Net cash provided by (used in) financing activities | (304) | --- |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (21) | 343 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF EACH YEAR | <u>1,093</u> | <u>1,721</u> |
| CASH AND CASH EQUIVALENTS AT END OF EACH PERIOD | <u>\$ 1,072</u> | <u>\$ 2,064</u> |

Management's Discussion and Analysis

Liquidity and Capital Resources

We had cash and cash equivalents of \$1,072,000 at March 31, 2016. Our cash was maintained in FDIC-insured bank accounts and collateralized short-term investments.

Our continuing operations provided cash flows 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. As of June 8, 2016, we have repurchased 201,000 shares of common stock for \$231,578 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 \$18.8 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. NOL carryforwards amounting to approximately \$230,000 can be applied against the year-to-date taxable income.

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.otcm Markets.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 \$2,131,000 compared to \$2,059,000 for the three months ended March 31, 2015. The increase in revenues of \$72,000, or 3.5% can be attributed to the combined increase in sales of LatherKing product and the retail distribution unit.

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.

Correction of an Error in Previously Reported Quarterly Report

Our previously reported revenue and cost of revenue during the first quarter did not properly reflect the elimination of intercompany sales between Morris Flamingo and Williamsport Bowman. As a result, both revenue and cost of revenue have been overstated. The error has been corrected by restating as follows:

| | Three months ended March 31, 2016 | | |
|-----------------|-----------------------------------|-----------------------|---------------|
| | As Previously Reported | Intercompany Sales | As Corrected |
| Revenue | \$ 2,242 | \$ (111) | \$ 2,131 |
| Cost of Revenue | 1,554 | (111) | 1,443 |
| Gross Profit | <u>\$ 688</u> | <u>\$ ----</u> | <u>\$ 688</u> |

The previously reported gross profit of \$688,000 remains unchanged.

