

The Stephan Co.
Third Quarter Report
September 30, 2016

Table of Contents

Consolidated Condensed Balance Sheets	3
Consolidated Condensed Statements of Operations for the three months ended September 30, 2016	4
Consolidated Condensed Statements of Operations for the nine months ended September 30, 2016	5
Consolidated Condensed Statement of Changes in Stockholders' Equity	6
Consolidated Condensed Statements of Cash Flows	7
Management's Discussion and Analysis	8

Financial results are unaudited unless otherwise indicated.

The Stephan Co
CONSOLIDATED BALANCE SHEETS
At September 30, 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	\$ 742	\$ 1,093
Accounts receivable, net	198	223
Inventories	827	768
Prepaid expenses and other current assets	<u>155</u>	<u>62</u>
Total Current Assets	1,922	2,146
Other assets, net	8	---
Property and equipment, net	294	331
Goodwill, net	<u>1,396</u>	<u>1,395</u>
TOTAL ASSETS	<u>\$ 3,620</u>	<u>\$ 3,872</u>
<u>LIABILITIES & STOCKHOLDERS' EQUITY</u>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 554	\$ 376
Short-term liabilities of discontinued operations	<u>---</u>	<u>112</u>
Total Current Liabilities	554	488
Deferred income tax liability	<u>140</u>	<u>140</u>
TOTAL LIABILITIES	694	628
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
At September 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	44	44
(3,821,116 shares outstanding at September 30, 2016 and 4,049,075 shares outstanding at December 31, 2015)		
Additional paid-in capital	18,174	18,174
Accumulated deficit	(14,163)	(14,110)
Treasury stock (568,495 shares at September 30, 2016 and 340,536 shares at December 31, 2015), at cost	<u>(1,129)</u>	<u>(863)</u>
TOTAL STOCKHOLDERS' EQUITY	<u>2,926</u>	<u>3,245</u>
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	<u>\$ 3,620</u>	<u>\$ 3,872</u>

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

	<u>2016</u> (Unaudited)	<u>2015</u> (Unaudited)
Revenue	\$ 1,933	\$ 1,890
Cost of revenue	<u>1,338</u>	<u>1,326</u>
Gross profit	595	564
Selling, general and administrative expenses	414	1,283
Depreciation and amortization	<u>13</u>	<u>6</u>
Operating income (loss)	169	(725)
Other income, net	<u>---</u>	<u>---</u>
Income (loss) from continuing operations before income taxes	169	(725)
Provision for income taxes	<u>---</u>	<u>5</u>
Income (loss) from continuing operations	169	(730)
Income (loss) from discontinued operations, net of \$0 tax in 2016 and 2015	<u>---</u>	<u>(24)</u>
NET INCOME (LOSS)	<u><u>\$ 169</u></u>	<u><u>\$ (754)</u></u>
Per common share:		
Income (loss) from continuing operations	\$ 0.04	\$ (0.18)
Income (loss) from discontinued operations	<u>---</u>	<u>(0.01)</u>
Net income (loss)	<u><u>\$ 0.04</u></u>	<u><u>\$ (0.19)</u></u>
Weighted average common shares outstanding	3,825,849	4,049,075

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

	<u>2016</u>	<u>2015</u>
Revenue	\$ 5,989	\$ 6,008
Cost of revenue	<u>4,140</u>	<u>4,206</u>
Gross profit	1,849	1,802
Selling, general and administrative expenses	1,272	2,463
Depreciation and amortization	<u>38</u>	<u>8</u>
Operating income (loss)	539	(669)
Other income, net	<u>---</u>	<u>---</u>
Income (loss) from continuing operations before income taxes	539	(669)
Provision for income taxes	<u>---</u>	<u>10</u>
Income (loss) from continuing operations	539	(679)
Income (loss) from discontinued operations	<u>---</u>	<u>(289)</u>
NET INCOME (LOSS)	<u><u>\$ 539</u></u>	<u><u>\$ (968)</u></u>
Per common share:		
Income (loss) from continuing operations	\$ 0.14	\$ (0.17)
Income (loss) from discontinued operations	<u>---</u>	<u>(0.06)</u>
Net income (loss)	<u><u>\$ 0.14</u></u>	<u><u>\$ (0.24)</u></u>
Weighted average common shares outstanding	3,928,582	4,049,075

The Stephan Co
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
 Nine Months Ended September 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 (Unaudited)	4,389,611	\$ 44	\$ 18,174	\$ (14,110)	\$ (863)	\$ 3,245
Stock buyback, 227,959 shares	---	---	---	---	(266)	(266)
Dividends paid	---	---	---	(591)	---	(591)
Net Income	---	---	---	539	---	539
Balance at September 30, 2016 (unaudited)	<u>4,389,611</u>	<u>\$ 44</u>	<u>\$ 18,174</u>	<u>\$ (14,163)</u>	<u>\$ (1,129)</u>	<u>\$ 2,926</u>

The Stephan Co
CONSOLIDATED STATEMENTS OF CASH FLOWS
 Nine Months Ended September 30, 2016 and September 30, 2015
(in thousands)

	2016 (Unaudited)	2015 (Unaudited)
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
NET (LOSS) INCOME	\$ 539	\$ (968)
Income (loss) from discontinued operations, net of tax	---	(289)
Income (loss) from continuing operations	<u>539</u>	<u>(679)</u>
Net cash flows provided by (used in) operating activities:		
Depreciation and amortization	38	8
Changes in operating assets & liabilities:		
(Increase) decrease in accounts receivable, net	25	(10)
(Increase) decrease in inventories	(59)	215
(Increase) decrease in prepaid expenses and other assets	(102)	(59)
Increase (decrease) in accounts payable and accrued expenses	<u>177</u>	<u>45</u>
Net cash provided by (used in) operating activities - continuing operations	618	(480)
Net cash provided by (used in) operating activities - discontinued operations	<u>(112)</u>	<u>(1,453)</u>
Net cash provided by (used in) operating activities	506	(1,933)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchases of property and equipment	---	(92)
Net cash used in investing activities - continuing operations	---	(92)
Net cash provided by investing activities - discontinued operations	---	867
Net cash provided by investing activities	---	775
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Dividends paid	(591)	(303)
Stock repurchased	<u>(266)</u>	---
Net cash used in financing activities	(857)	(303)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(351)	(1,461)
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>\$ 742</u>	<u>\$ 260</u>

Management's Discussion and Analysis

Liquidity and Capital Resources

We had cash and cash equivalents of \$742,000 at September 30, 2016. Our cash was maintained in FDIC-insured bank accounts and collateralized short-term investments.

Our continuing operations provided cash flow of approximately \$506,000 for the nine months ended September 30, 2016. During the first nine months of the year, we made the \$105,000 final payment to our former Chief Executive Officer and Chief Finance Officer for the termination of their employment in 2015; we distributed dividends amounting to \$304,000 to our shareholders in February 2016 and \$287,000 in August 2016; and repurchased 228,000 shares of common stock for \$266,000 which is approximately 6% of outstanding shares. The Company authorized the repurchase of 500,000 shares of common stock on April 22, 2016.

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, 2016, we have in excess of \$18.8 million in net operating loss ("NOL") carry forwards available to offset future taxable income, maintained approximately \$1.4 million in working capital and have tangible net worth of \$2.2 million. NOL carryforwards amounting to approximately \$530,000 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 September 30, 2016 vs. Three Months Ended September 30, 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 during the three months ended September 30, 2016 mainly represent the Company's distribution business.

Overall revenues for the three months ended September 30, 2016 were \$1,933,000 compared to \$1,890,000 for the three months ended September 30, 2015 or an increase in revenue of \$43,000, or 2.3%.

Selling, General and Administrative expenses for the quarter decreased by approximately \$869,000, or 67.9%. The significant decrease was caused primarily by the \$630,000 payment during third quarter 2015 to our Former Chief Executive Officer for the termination of his employment agreement. Additionally, the Company incurred less overhead costs during the three months ended September 30, 2016.

Results of Operations Nine Months Ended September 30, 2016 vs. Nine Months Ended September 30, 2015

Overall revenues for the nine months ended September 30, 2016 were \$5,989,000 compared to \$6,008,000 for the nine months ended September 30, 2015 or a net decrease in revenue of \$19,000, or 0.3%. The minimal net decrease during the nine months ended September 30, 2016 resulted mainly from combined increases in both first and third quarter, offset by the seasonal decrease during the second quarter.

Selling, General and Administrative expenses for the nine months decreased by approximately \$1,191,000, or 48.4%, due to the reduction in the Company's corporate overhead costs and restructuring described above.

Correction of Previously Reported Quarterly Reports

Our previously reported revenue and cost of revenue during the first two quarters of the year did not properly reflect the elimination of intercompany sales between Morris Flamingo and Williamsport Bowman. As a result, both revenue and cost of revenue for the first two quarters have been overstated while the gross profit remained the same. The impact of this error on this third quarter financial reports have been corrected. Please refer to our restated First Quarter and Second Quarter Reports which can be found at www.otcm Markets.com (symbol: SPCO.PK).