

The Stephan Co.
Preliminary Report
Year End December 31, 2015

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Financial results are unaudited unless otherwise indicated.

The Stephan Co
CONSOLIDATED BALANCE SHEETS
At December 31, 2015 and December 31, 2014
(In thousands, except share and per share amounts)

	<u>2015</u>	<u>2014</u> Audited
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,091	\$ 1,721
Accounts receivable, net	223	147
Inventories	768	908
Prepaid expenses and other current assets	62	94
Short-term assets of discontinued operations	<u>---</u>	<u>1,807</u>
Total Current Assets	2,144	4,677
Other assets, net	9	12
Property and equipment, net	331	316
Goodwill, net	<u>1,395</u>	<u>1,395</u>
TOTAL ASSETS	<u>\$ 3,879</u>	<u>\$ 6,400</u>
 LIABILITIES & STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	\$ 376	\$ 127
Short-term liabilities of discontinued operations	<u>112</u>	<u>1,899</u>
Total Current Liabilities	488	2,026
Deferred income tax liability	<u>140</u>	<u>140</u>
TOTAL LIABILITIES	628	2,166
 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	(14,104)	(13,121)
Treasury stock (340,536 shares) at cost	<u>(863)</u>	<u>(863)</u>
TOTAL STOCKHOLDERS' EQUITY	<u>3,251</u>	<u>4,234</u>
TOTAL LIABILITIES & STOCKHOLDERS EQUITY	<u>\$ 3,879</u>	<u>\$ 6,400</u>

The Stephan Co
CONSOLIDATED STATEMENTS OF OPERATIONS
 Three Months Ended December 31, 2015 and December 31, 2014
(in thousands, except per share data)

	<u>2015</u>	<u>2014</u>
Revenue	\$ 1,900	\$ 1,965
Cost of revenue	<u>1,350</u>	<u>1,407</u>
Gross profit	550	558
Selling, general and administrative expenses	833	942
Depreciation and amortization	<u>28</u>	<u>4</u>
Operating (loss) income	(311)	(388)
Other income, net	<u>53</u>	<u>---</u>
(Loss) income from continuing operations before income taxes	(258)	(388)
Provision for income taxes	<u>45</u>	<u>---</u>
(Loss) income from continuing operations	(303)	(388)
(Loss) income from discontinued operations, net of tax of \$0 in 2015 and 2014	<u>572</u>	<u>(1,057)</u>
NET (LOSS) INCOME	<u>\$ 269</u>	<u>\$ (1,445)</u>
Per common share:		
(Loss) income from continuing operations	\$ (0.07)	\$ (0.10)
(Loss) income from discontinued operations	<u>0.14</u>	<u>(0.26)</u>
Net (loss) income	<u>\$ 0.07</u>	<u>\$ (0.36)</u>
Weighted average common shares outstanding	4,049,075	4,049,075

The Stephan Co
CONSOLIDATED STATEMENTS OF OPERATIONS
 Years Ended December 31, 2015 and December 31, 2014
(in thousands, except per share data)

	<u>2015</u>	<u>2014</u> Audited
Revenue	\$ 8,011	\$ 8,839
Cost of revenue	<u>5,631</u>	<u>6,356</u>
Gross profit	2,380	2,483
Selling, general and administrative expenses	3,304	2,870
Depreciation and amortization	<u>36</u>	<u>16</u>
Operating (loss) income	(960)	(403)
Other income, net	<u>54</u>	<u>1</u>
(Loss) income from continuing operations before income taxes	(906)	(402)
Provision for income taxes	<u>55</u>	<u>54</u>
(Loss) income from continuing operations	(961)	(456)
(Loss) income from discontinued operations, net of tax of \$0 in 2015 and 2014	<u>282</u>	<u>(2,263)</u>
NET (LOSS) INCOME	<u>\$ (679)</u>	<u>\$ (2,719)</u>
Per common share:		
(Loss) income from continuing operations	\$ (0.24)	\$ (0.11)
(Loss) income from discontinued operations	<u>0.07</u>	<u>(0.56)</u>
Net (loss) income	<u>\$ (0.17)</u>	<u>\$ (0.67)</u>
Weighted average common shares outstanding	4,049,075	4,049,075

The Stephan Co
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Year Ended December 31, 2015
(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, 2014 (Audited)	4,389,611	\$ 44	\$ 18,174	\$ (13,121)	\$ (863)	\$ 4,234
Dividends paid	---	---	---	(303)	---	(303)
Net loss	---	---	---	(679)	---	(679)
Balance at December 31, 2015	<u>4,389,611</u>	<u>\$ 44</u>	<u>\$ 18,174</u>	<u>\$ (14,104)</u>	<u>\$ (863)</u>	<u>\$ 3,251</u>

The Stephan Co
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2015 and December 31, 2014
(in thousands)

	<u>2015</u>	<u>2014</u> Audited
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
NET (LOSS) INCOME	\$ (679)	\$ (2,719)
(Loss) income from discontinued operations, net of tax	<u>282</u>	<u>(2,263)</u>
(Loss) income from continuing operations	(961)	(456)
Net cash flows provided by (used in) operating activities:		
Deferred income tax expense	---	61
Loss (gain) on sales of property and equipment		
Depreciation and amortization	36	16
Stock option compensation	---	4
Changes in operating assets & liabilities:		
(Increase) decrease in accounts receivable, net	(76)	76
Decrease in inventories	140	524
(Increase) decrease in prepaid expenses and other assets	36	56
Increase (decrease) in accounts payable and accrued expenses	<u>255</u>	<u>(455)</u>
Net cash (used in) provided by operating activities - continuing operations	(465)	(174)
Net cash used in operating activities - discontinued operations	<u>(1,562)</u>	<u>(1,585)</u>
Net cash used in operating activities	(2,069)	(1,759)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchases of property and equipment	<u>(134)</u>	<u>(104)</u>
Net cash used in investing activities - continuing operations	(134)	(104)
Net cash provided by investing activities - discontinued operations	<u>1,917</u>	<u>1,650</u>
Net cash provided by investing activities	1,783	1,546
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Dividends paid	<u>(303)</u>	---
Net cash used in financing activities - continuing operations	(303)	---
Net cash used in financing activities - discontinued operations	---	<u>(24)</u>
Net cash used in financing activities	(303)	(24)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(630)	(237)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,721</u>	<u>1,958</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,091</u>	<u>\$ 1,721</u>

Management's Discussion and Analysis

Liquidity and Capital Resources

We had cash and cash equivalents of \$1,090,732 at December 31, 2015. Our cash was maintained in FDIC-insured bank accounts and collateralized short-term investments.

Our continuing operations consumed cash flow of approximately \$465,000 for the year ended December 31, 2015. Significant uses and sources of cash from discontinued operations 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; 5) dividend payment of \$303,000 made to our shareholders in August 2015; and 6) sale of our Tampa property in December 2015 which generated proceeds of approximately \$1,008,000.

We have adequate liquidity and do not foresee the need for additional capital for day-to-day operations in the next year. At December 31, 2015, we have in excess of \$19 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 \$2.5 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 December 31, 2015 vs. Three Months Ended December 31, 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 December 31, 2015 were \$1,900,000 compared to \$1,965,000 for the three months ended December 31, 2014. This \$65,000 decrease, or 3.3%, is primarily a result of decreased revenues within our Williamsport/Bowman operating unit which experienced an \$85,000 decrease, or 5.28%.

Selling, General and Administrative expenses for the quarter decreased by approximately \$109,000, or 11.57%, as the Company incurred less cost during the quarter ended December 31, 2015 resulting from ongoing company restructuring.

Results of Operations for the Year Ended December 31, 2015 vs. Year Ended December 31, 2014

Overall revenues for the year ended December 31, 2015 were \$8,011,000 compared to \$8,839,000 for the previous year ended December 31, 2014. This \$828,000 decrease, or 9.4%, is primarily a result of the aforementioned reduction in revenues of our Williamsport/Bowman operating unit.

Selling, General and Administrative expenses for the year ended increased by approximately \$434,000 or 15.1%, as the Company incurred one-time costs related to the termination of its CEO and CFO approximating \$886,000. Adjusting for this one-time cost, Selling, General and Administrative expenses for this period decreased by \$295,000, or 10.3%, as the Company continue to realize ongoing savings as part of the restructuring that began in 2014. Please read our Audited Annual Report for 2014 for further information about the Company's financial results and future plans.