



May 1, 2014

Dear Stockholder:

I am pleased to provide you with an update on the performance of PharmChem, Inc. (PharmChem) for the year ending December 31, 2013.

As I prepared to write this update, I reviewed the previous letters to stockholders. Generally, I spoke about how PharmChem was dealing with the self-liquidation and complexities of monetizing its last remaining asset -- the PharmChek® Drugs of Abuse Sweat Patch Business.

We have made significant progress on the self-liquidation as we have settled amounts owed to secured and unsecured creditors, and have reached the end of the required record keeping time frame as mandated for federal drug testing contracts.

Clearly, a self-liquidation can take several forms including a sale, wind down or a combination thereof. The Board of Directors continues to be committed to an exit strategy which will maximize stockholders' value. Thus far, our efforts to sell the Sweat Patch Business have been unsuccessful.

PharmChem exited 2013 facing a shift in its customer base from federally directed programs to state-funded initiatives as the emphasis on drugs of abuse testing at the federal level waned. For example federal probation sales have decreased from 45% to just 27% of our total sales.

Our 2013 results, in my opinion, reflect the success we experienced by building upon this shift in our customer base thereby improving financial results and growing market share.

Please note a few of our accomplishments:

1. Over the past several years, the Company has successfully targeted the Sweat Patch Business to the state and local level as drug testing by federal probation has, in our view, become a lower level priority resulting from either change in philosophy, funding, or both.
2. The Company expanded its sales and marketing efforts to focus more closely on state and local agencies where drug testing in general, and the Sweat Patch Business in particular, have demonstrated growth opportunities. The Company began emphasizing professional training, attendance at shows and seminars, and has revamped its web site and related marketing material.



3. As a result of this effort, the Company secured 121 new customers during the past two years.
4. In March 2014, the Company announced it would expand its drug testing panel to include certain so-called “synthetic opiates” – hydrocodone, hydromorphone, oxycodone and oxymorphone. There is no assurance this action will be well received by our customers.
5. Finally, I was very pleased with our financial results. A few highlights are as follows:
  - a.) Sales were \$1,778,500, an improvement of 8% over 2012.
  - b.) Operating income was \$130,792, up 132% over 2012’s level.
  - c.) Year over year, cash and securities increased \$105,041.

We’ve attached summary financial statements for 2013 and 2012.

Again, I am very pleased with our operational and financial performance this past year. Where do we go from here? First, we need to continue our growth and enhance market share in state and local-sponsored testing; second, grow the sales of our current product offering with our newly expanded opiate testing panel; third, focus on continuing our evaluation of strategic alliances that may enable more diverse sales; and fourth, continue our objective to cultivate an exit opportunity.

As mentioned above, we have been unable to successfully sell the Sweat Patch Business—our last remaining asset. We believe this is due to previously discussed issues including provisions in certain contracts that would affect a sale; the small niche market in which the Sweat Patch operates; the heavily-regulated protocols to which the Business is subject; the likelihood that a potential buyer of the Business would have to invest in further research and development to keep pace with current trends and regulatory compliance; and the unavailability of certified laboratories capable of testing the Sweat Patch.

I appreciate your continued support. Future updates will be made as conditions warrant.

Joseph W. Halligan  
President & Chief Executive Officer  
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In 2003, the Company filed Form 15 with the Securities and Exchange Commission effectively terminating its registration under the Commission Act of 1934. The Company has no plans to revoke this filing.



The Company does not believe that it is subject to the Securities Exchange Commission’s reporting requirements. Nonetheless, this letter contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933 (“Forward-looking Statements”), which are subject to the “safe harbor” created by these Sections. Forward-looking statements are statements about future financial results, future products or services and other events that have not yet occurred. These forward-looking statements contain words such as, but not limited to, “expect”, “anticipate”, “estimate”, “believe”, “will”, “may” or “might”. Investors should be aware that actual results may differ materially from our expressed expectations because of risks and uncertainties about the future. We will not necessarily update the information in this letter if any forward-looking statement later turns out to be inaccurate.”



PharmChem, Inc.  
Balance Sheets  
December 31, 2013 and 2012  
(Unaudited)

	<u>2013</u>	<u>2012</u>
Cash & Cash Equivalents	\$ 1,056,960	\$ 951,919
Short-Term Securities	127,482	127,482
Receivables, Net	240,537	158,235
Other Assets	98,787	92,730
	<u>\$ 1,523,766</u>	<u>\$ 1,330,366</u>
Accounts Payable	\$ 103,372	\$ 78,525
Accrued Expenses	109,017	93,583
Stockholders' Equity*	1,311,377	1,158,258
	<u>\$ 1,523,766</u>	<u>\$ 1,330,366</u>



PharmChem, Inc.  
Statements of Operations  
For The Twelve Months Ending December 31, 2013 and 2012  
 (Unaudited)

	<u>2013</u>	<u>2012</u>
Net Sales	\$ 1,778,500	\$ 1,646,999
Cost of Goods Sold	<u>651,554</u>	<u>594,199</u>
Gross Profit	1,126,946	1,052,800
Selling, General & Administrative Expenses	<u>996,154</u>	<u>996,539</u>
Operating Income	130,792	56,261
Dividend and Other Income	<u>14,807</u>	<u>14,538</u>
Net Profit Before Taxes	145,599	70,799
Provision for Taxes	<u>(7,520)</u>	<u>(3,982)</u>
Net Income	<u>\$ 153,119</u>	<u>\$ 74,781</u>