



**PHARMCHEM, INC. RELEASES ITS ANNUAL LETTER TO STOCKHOLDERS & ANNOUNCES A 20% INCREASE IN ITS ANNUAL DIVIDEND**

December 3, 2018, Fort Worth, TX: PharmChem (the “Company”) released its results for 2017 and announced a 20% increase in its annual dividend to six (\$0.06) cents per share. The dividend, declared by the board of directors, is payable to stockholders of record on Dec. 21, 2018 and is payable on Jan. 7, 2019. Commenting on 2017 results, Mr. Joseph W. Halligan, President and CEO, said they were both challenging and, yet, quite successful. Sales, operating and net income increased 12%, 19% and 16%, respectively. This is the fourth consecutive year of double-digit growth in these metrics and our third dividend payment. As more fully described below, there continue to be risk factors, opportunities and investment requirements facing us.

Mr. Halligan added, “We’re seeking our stockholders’ support and vote on the enclosed ballot to increase by 500,000 the number of shares available under our 2015 Employee Stock Option Plan for issuance to current and future employees.”

During 2017, we consistently communicated the unique features of the PharmChek® Sweat Patch to federal, state probation and parole offices, state drug courts, re-entry programs and various treatment and recovery courts throughout the U.S. Our message is to promote long-term and continuous monitoring of drugs of abuse with emphasis on the distinct advantages of the Sweat Patch. We attended 14 state conferences and seven prominent national conferences--in each case highlighting our device and related lab services, thereby reinforcing our presence and awareness in these markets. Also, we serviced customers in 47 states and opened 83 new accounts. As customers take advantage of our online introduction and training modules, they become familiar and comfortable with our device and then commence the ordering process.

We continued to concentrate our sales and marketing efforts among those states actively engaged in a justice reinvestment model or those operating a recently funded 24/7 sobriety program. Thirteen states applied for grant determinations from NHTSA’s 2018 funding cycle, of which seven were awarded funding for drugs of abuse testing. Of these, we currently provide services to FL, MT, ND, and SD, and we expect IA, ID and WY to follow suit shortly. Five other states applied but were not funded.

Our growth in 2018 is expected to ease somewhat but still achieve growth comparable to that previously experienced. Nearly every segment of our customer base has slowed their testing due, we believe, to the uncertainty of continued federal funding and the impact of the lab price increase we announced in late 2017. Our price action followed cost increases taken by the lab which screens our customers’ specimens.

The recent passage of the SUPPORT for Patients and Communities Act is a wide-ranging bill designed to address the opioid crisis. The opportunities for our business to expand in this



category appear to be limited. Rather, the major beneficiaries of this bill are geared towards the medical community where we cannot currently participate.

Sweat testing for drugs of abuse can be beneficial to medical professionals in the pain management field as the application of one patch provides continuous and cumulative monitoring for 7 to 14 days. Testing using urine or blood does not accomplish such an extended window of detection. However, the processes to enter this market would be quite involved as the development of new assays and protocols would be necessary. Further, it is likely a new device may be required. All of these steps would require FDA clearance, be time-consuming, quite expensive and not without risk.

Our plans for 2019 include the expansion of our existing opioid panel by as many as four additional drugs (including fentanyl, buprenorphine, methadone and tramadol) and quite possibly six additional benzodiazepines. This work will also be costly and require FDA clearances. These clearances (known as lab determined tests or LTD's) should not be as difficult, the time horizon should not be as lengthy, and the costs would be more manageable than those expected under the pain management processes described above. However, as is common with these types of processes, there is no assurance that FDA clearances will be obtained or if customers will accept the expanded panels and their higher pricing.

The lack of other available certified laboratories could hamper these plans, but this issue will be carefully evaluated as we move forward. Updates on this and our expansion efforts will be forthcoming as they develop.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE PROPOSAL TO INCREASE THE NUMBER OF SHARES AVAILABLE UNDER THE 2015 EMPLOYEE STOCK OPTION PLAN.** Please vote using the enclosed ballot and return it, after signing, in the envelope provided no later than February 14, 2019.

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

A handwritten signature in black ink that reads "Joe Halligan".

Joseph W. Halligan  
President & CEO  
jhalligan@pharmchem.com

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In 2003, the Company filed Form 15 with the Securities and Exchange Commission effectively terminating its registration under the Securities Exchange 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.  
Summary Balance Sheets  
December 31, 2017 and 2016

	2017 (Audited)	2016 (Audited)
Cash & Cash Equivalents	\$3,858,172	\$2,928,499
Short-Term Securities	19,300	19,300
Receivables, Net	534,131	514,095
Other Current Assets	141,194	128,021
	<u>4,552,797</u>	<u>3,589,915</u>
Property and Equipment, Net	14,864	22,770
Total Assets	<u>\$4,567,661</u>	<u>\$3,612,685</u>
Accounts Payable	\$ 185,900	\$ 172,005
Accrued Expenses	472,101	416,809
Total Liabilities	<u>658,001</u>	<u>588,814</u>
Stockholders' Equity	3,909,660	3,023,871
	<u>\$4,567,661</u>	<u>\$3,612,685</u>



PharmChem, Inc.  
Summary Statements of Operations  
For The Twelve Months Ended December 31, 2017 and 2016

	<u>2017</u> <u>(Audited)</u>	<u>2016</u> <u>(Audited)</u>
Net Sales	\$ 4,690,663	\$ 4,168,305
Cost of Goods Sold	1,742,900	1,580,472
Gross Profit	2,947,763	2,587,833
Selling, General & Administrative Expenses	1,715,748	1,555,040
Operating Income	1,232,015	1,032,793
Dividend Income and Realized Gain on Securities	2,089	3,506
Net Profit Before Taxes	1,234,104	1,036,299
Provision for Taxes	55,685	20,995
Net Income	<u>\$ 1,178,419</u>	<u>\$ 1,015,304</u>

**ACTION BY WRITTEN CONSENT  
OF THE STOCKHOLDERS OF PHARMCHEM, INC.**

The undersigned stockholder(s) of PharmChem, Inc., a Delaware corporation (the "Company"), representing the holders of the issued and outstanding shares of the Company's common stock, of which 25,000,000 shares are authorized and 5,852,593 are issued and outstanding, vote to consent and adopt, with respect to all shares of the Company's common stock held by them, the following resolution by written consent pursuant to Section 228 of the Delaware General Corporation Law, waive all requirements with respect to notice regarding such actions, and direct that this written consent be filed with the minutes of the proceedings of the stockholders of the Company.

**THE BOARD OF DIRECTORS (the "BOARD") RECOMMENDS APPROVAL OF THE INCREASE IN SHARES SUBJECT TO OPTION UNDER THE 2015 EMPLOYEE STOCK OPTION PLAN**

WHEREAS, the Board of Directors of the Company adopted the 2015 Employee Stock Option Plan on January 27, 2015, a copy of which may be obtained by writing to the Secretary of the Company at 2411 E. Loop 820 N., Fort Worth, TX 76118, under which the 1997 Equity Incentive Plan was extended by the Board and 1,140,000 shares of the Company's Common Stock were granted as options; and

WHEREAS, the Board approved an increase in the number of shares subject to options by 500,000 shares at its October 30, 2018 meeting;

NOW, THEREFORE, BE IT RESOLVED, that an additional 500,000 of the authorized but unissued or reacquired shares of Common Stock may be issued under the Plan.

The undersigned hereby consents to the foregoing resolutions and directs that this Written Consent be filed with the minutes of the proceedings of the stockholders of the Company and said resolutions shall have the same force and effect as if they were adopted at a meeting at which the undersigned were personally present.

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The undersigned has executed this Action by Written Consent.

**STOCKHOLDER VOTE:**

FOR THE ABOVE PROPOSAL \_\_\_\_\_ AGAINST THE ABOVE PROPOSAL \_\_\_\_\_

Signature: \_\_\_\_\_

Print Name: \_\_\_\_\_

Date: \_\_\_\_\_

**PLEASE RETURN IN THE ENCLOSED ENVELOPE NO LATER THAN FEBRUARY 14, 2019**