



**PHARMCHEM, INC. ANNOUNCES AN INCREASE IN ITS DIVIDEND OF 100% AND RELEASES ITS ANNUAL LETTER TO STOCKHOLDERS**

We are releasing our results for 2018 and the first six months of 2019. In addition, we are pleased to announce that the Board of Directors declared a dividend of eight (\$.08) cents a share together with a special dividend of four (\$.04) cents a share.

Our results for 2018 showed a sales increase of 10.0%, operating income rose 18.4% and net income was higher by 32.3%. Net income includes a refund of approximately \$90,000 to be paid to the Company for prior years' AMT resulting from The Tax Cuts and Jobs Act of 2017.

The dividend of eight cents a share represents a 33% increase over last year's dividend and when taken together with the special dividend, amounts to a doubling of last year's dividend. Both will be payable to stockholders of record on September 17, 2019 and will be paid on October 1, 2019.

Product volume in 2018 was down 5% while screens increased 5% with customers' segment mix and pricing accounting for the balance of the sales gain. The delay in and uncertainty of funding for drug testing (as we mentioned last year) significantly affected our distributors and federal probation. Our retail side of the business showed sizeable volume increases as we leveraged our sales and marketing strategies towards this segment. And, since the margins we enjoy in the retail business are considerably higher than the other two segments, we saw gains in operating and net income as described above.

We remain committed to sharing the distinct advantages of the Sweat Patch over other testing methodologies. As such, in 2018, we were featured at 18 state and local conferences across the nation. Additionally, we have doubled our efforts to ensure success in identifying decision makers by attending 11 conferences and training sessions during the first half of 2019. We believe these efforts will reinforce our objectives to grow both product and lab services' volume.

We opened 68 new accounts in 2018 and 41 during the first six months of 2019.

We continue to collaborate and partner with states operating 24/7 sobriety programs that feature the Sweat Patch. During the fiscal 2019 cycle, we once again saw 11 states apply for the program grant under NHTSA's (405d) funding. Of these, five were granted funding (IA, MT, ND, SD and WA). States find the guidelines to be considered for such funding and compliance thereafter can be difficult, complex, time consuming and costly.



The comprehensive opioids and addictions legislation known as SUPPORT (H.R. 6) was appropriated at \$786 million in February 2019, a \$65 million increase over the prior year's amount. Kentucky was the first state to apply for and receive funding under this Act. However, the benefits of and how this legislation may potentially impact us are still uncertain since the utilization for community monitoring and testing remains unclear.

For the six months ending June 30, 2019, we saw increases in sales, operating and net income of 8.4%, 13.9% and 20.2%, respectively. The release of funding provided some relief to the distributor and retail segments while federal probation continues to lag.

During 2019, we began the implementation of the FDA mandated Unique Device Identification ("UDI") regulations whereby a system is established to adequately identify a device such as ours through distribution and use. The UDI program is aimed at making recalls efficient and timely. The adoption and implementation of this regulation will be costly and require a considerable investment in time.

As mentioned in the past, we continue to face risks in our business model. The adoption of the UDI regulations mentioned above will impact product and packaging costs in addition to expenses necessary for adoption and implementation. We continue to talk with other laboratories to ascertain the feasibility of expanding our test panels as well as certain laboratory protocols.

The Company contracts with a certified laboratory to screen and confirm its customers' Sweat Patches. This laboratory must maintain certifications with several government and professional agencies. In addition, the laboratory must voluntarily participate in external proficiency programs to maintain such licenses. After providing certain notices, the laboratory can cancel the agreement with us. Such action could severely impact our ability to provide these services to our customers until another similarly certified laboratory is identified, which can provide protocols and standards currently used for sweat testing at a comparable cost.

We have attached condensed audited financial statements for 2018 and 2017 as well as unaudited condensed financial statements for the six months ended 2019 and 2018.

A meeting of stockholders will be held on Tuesday, August 27, 2019. The meeting will be held at the Tempe Mission Palms, 60 East Fifth Street, Tempe, AZ 85281 at 10:00 a.m., local time. Stockholders of record on July 19, 2019 are entitled to notice of the meeting and to vote at the meeting. All stockholders are cordially invited to participate in the meeting.

We continue to explore opportunities to present PharmChem together with its franchise and strategic value to those companies which might benefit from acquiring us. Clearly, the appetite for drug testing companies is not strong, particularly one such as ours which is unique to urine-based testing. One reason is the positivity rate for sweat runs around 40% while only 10-12% for



urine testing. This can be costly for both the lab and customers. Nevertheless, the search for opportunities continues as one of our higher priorities.

I appreciate the continued support of our stockholders, employees, customer and vendors. Future updates will be made as conditions warrant.

Joseph W. Halligan

A handwritten signature in black ink that reads "Joe Halligan". The signature is fluid and cursive, with the first name "Joe" being particularly prominent.

President & CEO

[jhalligan@pharmchem.com](mailto:jhalligan@pharmchem.com)

July 31, 2019

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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, 2018 and 2017

	2018 (Audited)	2017 (Audited)
Cash & Cash Equivalents	\$5,011,309	\$3,858,172
Short-Term Securities	19,300	19,300
Receivables, Net	558,201	534,131
Other Current Assets	264,250	141,194
	<u>5,853,060</u>	<u>4,552,797</u>
Property and Equipment, Net	8,993	14,864
Total Assets	<u>\$5,862,053</u>	<u>\$4,567,661</u>
Accounts Payable	\$ 196,851	\$ 185,900
Accrued Expenses	547,326	472,101
Total Liabilities	<u>744,177</u>	<u>658,001</u>
Stockholders' Equity	<u>5,117,876</u>	<u>3,909,660</u>
	<u>\$5,862,053</u>	<u>\$4,567,661</u>



PharmChem, Inc.  
Summary Statements of Operations  
For the Twelve Months Ended December 31, 2018 and 2017

	2018 (Audited)	2017 (Audited)
Net Sales	\$5,160,753	\$4,690,663
Cost of Goods Sold	1,984,698	1,742,900
Gross Profit	3,176,055	2,947,763
Selling, General & Administrative Expenses	1,717,522	1,715,748
Operating Income	1,458,533	1,232,015
Dividend Income and Realized Gain on Securities	8,264	2,089
Net Profit Before Taxes	1,466,797	1,234,104
Provision for Taxes	(92,575)	55,685
Net Income	<u>\$1,559,372</u>	<u>\$1,178,419</u>



PharmChem, Inc.  
Summary Balance Sheets  
June 30, 2019 and 2018

	2019 (Unaudited)	2018 (Unaudited)
Cash & Cash Equivalents	\$5,766,766	\$4,500,295
Short-Term Securities	19,300	19,300
Receivables, Net	689,222	583,976
Other Current Assets	141,668	134,349
	<u>6,616,956</u>	<u>5,237,920</u>
Property and Equipment, Net	6,062	11,934
Total Assets	<u>\$6,623,018</u>	<u>\$5,249,854</u>
Accounts Payable	\$ 192,526	\$ 230,219
Accrued Expenses	372,836	327,992
Total Liabilities	<u>565,362</u>	<u>558,211</u>
Stockholders' Equity	<u>6,057,656</u>	<u>4,691,643</u>
	<u>\$6,623,018</u>	<u>\$5,249,854</u>



PharmChem, Inc.  
Summary Statements of Operations  
For the Six Months Ended June 30, 2019 and 2018

	2019 <u>(Unaudited)</u>	2018 <u>(Unaudited)</u>
Net Sales	\$2,866,756	\$2,643,499
Cost of Goods Sold	<u>1,082,462</u>	<u>1,012,160</u>
Gross Profit	1,784,294	1,631,339
Selling, General & Administrative Expenses	<u>889,197</u>	<u>856,792</u>
Operating Income	895,097	774,547
Dividend Income & Other	<u>54,133</u>	<u>1,551</u>
Net Profit Before Taxes	949,230	776,098
Provision for Taxes	<u>9,450</u>	<u>(5,885)</u>
Net Income	<u><u>\$ 939,780</u></u>	<u><u>\$ 781,983</u></u>