



PHARMCHEM, INC. ANNOUNCES ITS SIX MONTHS RESULTS FOR 2020

For the six months ended June 30, 2020, sales increased 20.5% to \$3.5 million, operating income rose 28.8% to \$1.2 million and net income was \$1.1 million, up 18.4%.

Product sales increased 47% as current and new customers expanded or established the Sweat Patch in their drug testing portfolio as urine and saliva testing ceased in light of the recent virus outbreak. These new customers located throughout the United States more than offset significant declines in testing by several existing customers.

Our challenge is to retain these new customers once social distancing is no longer required as well as re-connecting with existing customers to encourage the use of the Sweat Patch.

Screens increased 7% for the first six months while screens in May and June rose a combined 30%. Typically, there is a considerable lag between the purchase of patches and their submission to the lab.

In order to comply with the CDC's social distancing suggestions insofar as they apply to drug testing, we are working with the AOUSC (federal probation) in Washington, D.C. to use alternative methods of applying and removing the Sweat Patch as well as the secure completion of the chain of custody form while maintaining the integrity of forensic defensibility.

We opened 173 new accounts during the first six months of 2020.

Net income was adversely impacted by lower yields on our investment portfolio and higher provision for taxes as we expect to exhaust our net operating loss carryforwards in the third quarter of 2020.

Reference should be made to earlier letters to stockholders for a description of risks facing us.

We have attached unaudited condensed financial statements for the six months ended June 30, 2020 and 2019.

We intend to hold our annual meeting of stockholders on August 25, 2020. However, the location has changed from that previously announced. The meeting is scheduled to be held at the law offices of Fennemore Craig P.C., 2394 E. Camelback Road, Suite 600, Phoenix, AZ 85016 at 10:00 a.m., local time. Stockholders of record on July 17, 2020 are entitled to notice of the



meeting and to vote at the meeting. All stockholders are cordially invited to participate in the meeting. The Notice of Annual Meeting of Stockholders and Proxy should be issued on or about July 24, 2020.

Following the advent of the Covid-19 pandemic, we proposed a collaboration with two distinct laboratories with product offerings to complement their existing drug testing portfolios. After some encouraging discussions, the principals backed away most likely due to the complexities of our forensic methodology. We continue, however, to explore opportunities to present PharmChem together with its franchise and strategic value to those companies which might benefit from acquiring us.

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 a long horizontal stroke at the end.

President & CEO

jhalligan@pharmchem.com

July 17, 2020

In 2003, the Company filed Form 15 with the Securities and Exchange Commission (SEC) effectively terminating its registration under the Securities Exchange Act of 1934. Under this filing, the Company does not believe it is subject to the SEC's reporting requirements, including this letter. We have no plans to revoke this filing.

This letter may contain 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
June 30, 2020 and 2019

	2020 (Unaudited)	2019 (Unaudited)
Cash & Cash Equivalents	\$ 6,436,883	\$ 5,766,766
Short-Term Securities	19,300	19,300
Receivables, Net	876,214	689,222
Other Current Assets	177,782	141,668
	<u>7,510,179</u>	<u>6,616,956</u>
Property and Equipment, Net	2,149	6,062
Total Assets	<u>\$ 7,512,328</u>	<u>\$ 6,623,018</u>
Accounts Payable	\$ 301,758	\$ 192,526
Accrued Expenses	549,198	372,836
Total Liabilities	<u>850,956</u>	<u>565,362</u>
Stockholders' Equity	6,661,372	6,057,656
	<u>\$ 7,512,328</u>	<u>\$ 6,623,018</u>



PharmChem, Inc.
Summary Statements of Operations
For the Six Months Ended June 30, 2020 and 2019

	2020 (Unaudited)	2019 (Unaudited)
Net Sales	\$ 3,455,005	\$ 2,866,756
Cost of Goods Sold	<u>1,245,612</u>	<u>1,082,462</u>
Gross Profit	2,209,393	1,784,294
Selling, General & Administrative Expenses	<u>1,056,932</u>	<u>889,197</u>
Operating Income	1,152,461	895,097
Dividend Income & Other	<u>19,152</u>	<u>54,133</u>
Net Profit Before Taxes	1,171,613	949,230
Provision for Taxes	<u>58,970</u>	<u>9,450</u>
Net Income	<u>\$ 1,112,643</u>	<u>\$ 939,780</u>
Basic Income Per Share	<u>\$0.19</u>	<u>\$0.16</u>
Diluted Income Per Share	<u>\$0.16</u>	<u>\$0.14</u>
Dividends Paid Per Common Share	<u>\$0.10</u>	<u>\$0.06</u>
Number of Common Shares Used to Calculate Income Per Share:		
Basic	<u>5,852,593</u>	<u>5,852,593</u>
Diluted	<u>6,992,593</u>	<u>6,923,593</u>

The diluted common shares represent shares issuable upon the exercise of outstanding vested options, all of which were vested as of June 30, 2020. No further grants are contemplated under the option plan as all options originally authorized have been granted.