PHARMCHEM, INC.
AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2023 and 2022
with Report of Independent Auditors

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Table of Contents

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of
PharmChem, Inc. and Subsidiary

Opinion

We have audited the consolidated financial statements of PharmChem, Inc. and subsidiary (collectively referred to as the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with GAAP and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Whitley Penn LLP

Fort Worth, Texas
March 18, 2024

PHARMCHEM, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

	December 31, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 1,571,766	$ 3,283,463
Accounts receivable, net of allowance for credit losses of $15,000 in 2023 and 2022	636,336	567,751
Income tax receivable	-	13,457
Inventories	391,937	160,844
Prepaid expenses and other current assets	39,846	26,145
Total current assets	2,639,885	4,051,660
Property and equipment, net	287	457
Right-of-use asset - operating lease, net	76,853	-
Deferred tax assets, net	48,534	30,016
Total assets	$ 2,765,559	$ 4,082,133
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 160,135	$ 146,322
Accrued expenses and other liabilities	128,141	144,430
Current portion of operating lease liabilities	26,725	-
Income tax payable	29,178	-
Deferred revenue	163,840	156,475
Total current liabilities	508,019	447,227
Operating lease liabilities, net of current portion	50,628	-
Total liabilities	558,647	447,227
Stockholders' equity:		
Common stock, $0.001 par value, 25,000,000 shares authorized, 4,647,731 outstanding and 4,767,331 issued in 2023 and 5,058,995 issued and outstanding in 2022	4,648	5,059
Additional paid-in capital	12,784,328	13,735,663
Accumulated deficit	(10,272,513)	(10,105,816)
Treasury stock, 119,600 shares at cost	(309,551)	-
Total stockholders' equity	2,206,912	3,634,906
Total liabilities and stockholders' equity	$ 2,765,559	$ 4,082,133

See accompanying notes to consolidated financial statements.

PHARMCHEM, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31, 2023	2022
Revenues, net	$ 6,012,403	$ 5,837,414
Cost of revenues	2,107,857	2,090,815
Gross profit	3,904,546	3,746,599
Operating expenses:		
Sales and marketing	1,171,974	931,700
General and administrative	1,759,425	1,733,205
Total operating expenses	2,931,399	2,664,905
Income from operations	973,147	1,081,694
Other income:		
Interest income, net of expenses	79,693	24,533
Other income	800	-
Total other income	80,493	24,533
Income before provision for income taxes	1,053,640	1,106,227
Income tax expense, net	208,538	235,793
Net income	$ 845,102	$ 870,434
Basic common shares outstanding - weighted average	4,971,136	5,072,499
Basic net income per share	$ 0.17	$ 0.17
Diluted common shares outstanding - weighted average	4,971,136	5,312,499
Diluted net income per share	$ 0.17	$ 0.16
Dividends paid per common share	$ 0.20	$ -

See accompanying notes to consolidated financial statements.

PHARMCHEM, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2023 and 2022

	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Total
Balance at December 31, 2021	$ 5,103	$ 13,819,663	$ (10,976,250)	$ -	$ 2,848,516
Net income	-	-	870,434	-	870,434
Repurchase and cancellation of common stock	(44)	(200,240)	-	-	(200,284)
Stock based compensation	-	116,240	-	-	116,240
Balance at December 31, 2022	5,059	13,735,663	(10,105,816)	-	3,634,906
Net income	-	-	845,102	-	845,102
Repurchase and cancellation of common stock	(291)	(717,638)	-	-	(717,929)
Dividends	-	-	(1,011,799)	-	(1,011,799)
Repurchase of treasury stock	(120)	-	-	(309,551)	(309,671)
Repurchase of stock options	-	(311,192)	-	-	(311,192)
Stock based compensation	-	77,495	-	-	77,495
Balance at December 31, 2023	$ 4,648	$ 12,784,328	$ (10,272,513)	$ (309,551)	$ 2,206,912

See accompanying notes to consolidated financial statements.

PHARMCHEM, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2023	2022
Operating Activities		
Net income	$ 845,102	$ 870,434
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	170	170
Provision for credit losses (recovery)	2,741	(331)
Deferred tax expense (benefit)	(18,518)	136,845
Stock based compensation	77,495	116,240
Non-cash lease expense	10,200	-
Net changes in operating assets and liabilities		
Accounts receivable	(71,326)	109,463
Income tax receivable	13,457	227,743
Inventories	(231,093)	(92,835)
Prepaid expenses and other current assets	(13,701)	(6,021)
Accounts payable	13,813	(42,619)
Accrued expenses and other liabilities	(16,289)	(121,315)
Operating lease liability	(9,700)	-
Income tax payable	29,178	-
Deferred revenue	7,365	68,703
Net cash provided by operating activities	638,894	1,266,477
Financing Activities		
Dividends	(1,011,799)	-
Repurchase of common stock	(717,929)	(200,284)
Repurchase of treasury stock	(309,671)	-
Repurchase of stock options	(311,192)	-
Net cash used in financing activities	(2,350,591)	(200,284)
Net increase (decrease) in cash and equivalents	(1,711,697)	1,066,193
Cash and equivalents at beginning of year	3,283,463	2,217,270
Cash and equivalents at end of year	$ 1,571,766	$ 3,283,463
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for taxes	$ 189,346	$ 110,805
Supplemental Disclosure of Non-Cash Flow Information		
Right-of-use asset assumed through lease liability	$ 85,831	$ -
Lease assumed through lease liability	$ 85,831	$ -

See accompanying notes to consolidated financial statements.

PHARMCHEM, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023 and 2022

1. Nature of Business

PharmChem, Inc. ("PharmChem") sells and distributes the PharmChek® Sweat Patch Device (the "Sweat Patch" or "PharmChek®"). PharmChek® is a system that uses sweat to detect the presence of illegal drugs. It consists of a transparent polyurethane outer covering, a small absorbent pad, and a release liner. A unique number is printed on the Sweat Patch for identification and anti-counterfeiting purposes. Unlike urinalysis, flushing or employing a diuretic to rid the body of drugs of abuse does not affect PharmChek® test results, since the drugs in the sweat simply collect on the absorption pad until the pad is removed for analysis.

The Food and Drug Administration ("FDA") has cleared PharmChek® for detecting the use of cocaine, opiates (including heroin), amphetamines (including methamphetamine), phencyclidine, and marijuana. Once the Sweat Patch is removed from the donor, it is sent to a third-party, certified laboratory for screening and, if necessary, confirmation. PharmChem's customers include federal, state, and local governments, state and local drug courts, as well as independent companies which provide drug rehabilitation and other related services.

PharmChek® is a registered trademark owned by PharmChem. PharmChem was incorporated in California in 1987 and reincorporated in Delaware in 2000. The corporate offices are located in Fort Worth, Texas.

During December 2022, PharmChem formed Chemiclear Testing LLC ("Chemiclear" and when combined with PharmChem, the "Company"), a wholly owned subsidiary. Chemiclear is a Delaware LLC formed for the purpose of marketing and distributing the TruPatch™ sweat patch kit, for over-the-counter use.

2. Summary of Significant Accounting Policies

A summary of the Company's significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows.

Basis of Accounting

The accounts are maintained and the consolidated financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary, which is wholly owned. Significant intercompany accounts and transactions have been eliminated in consolidation.

2. Summary of Significant Accounting Policies – continued

Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates and assumptions.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Company maintains deposits in various financial institutions, which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation ("FDIC"). The money market account is insured by the Securities Investor Protection Corporation ("SIPC"). The Company has not experienced any losses related to amounts in excess of FDIC and SIPC limits.

Accounts Receivable and Allowance for Credit Losses

Accounts receivable are stated at amounts management expects to collect for providing services to consumers. The Company regularly monitors and assesses its risk of not collecting amounts owed by customers. At each balance sheet date, the Company recognizes an expected allowance for credit losses. In addition, at each reporting date, this estimate is updated to reflect any changes in credit risk since the receivable was initially recorded.

The allowance estimate is derived from a review of the Company's historical losses based on the aging of receivables. This estimate is adjusted for management's assessment of current conditions, reasonable and supportable forecasts regarding future events, and any other factors deemed relevant by the Company. The Company believes historical loss information is a reasonable starting point in which to calculate the expected allowance for credit losses as the Company's portfolio segments have remained constant since the Company's inception.

The allowance for credit losses was $15,000 for the years ended December 31, 2023 and 2022.

The Company writes off receivables when there is information that indicates the debtor is facing significant financial difficulty and there is no possibility of recovery. If any recoveries are made from any accounts previously written off, they will be recognized in income in the year of recovery, in accordance with the entity's accounting policy election. The total amount of write-offs was immaterial to the consolidated financial statements as a whole for the years ended December 31, 2023 and 2022.

Inventories

Inventories consist of the Sweat Patch, TruPatch™, packaging, and other related materials. Inventories are valued at the lower of cost or net realizable value using average cost.

2. Summary of Significant Accounting Policies – continued

Property and Equipment

Property and equipment are stated at cost. Office equipment is depreciated using the straight-line method over a four-to-ten-year useful life for financial reporting purposes. Leasehold improvements are amortized using the straight-line method over the shorter of the remaining lives of the respective leases or the service lives of the improvements. Expenditures for major renewals and betterments that extend the useful lives are capitalized. Depreciation expense during 2023 and 2022 was approximately $200 and is included in general and administrative expenses in the accompanying consolidated statements of income. Expenditures for normal maintenance and repairs are expensed as incurred. The cost of assets sold or abandoned and the related accumulated depreciation are eliminated from the accounts, and any resulting gains or losses are reflected in the operating results of the respective period.

Leases

The Company has a lease for its office space. A lease provides the lessee the right to control the use of an identified asset for a period of time in exchange for consideration. Operating lease right-of-use assets ("ROU assets") represent the Company's right to use an underlying asset for the lease term. Operating lease liabilities ("lease liabilities") represent the Company's obligation to make lease payments arising from the lease. The Company determines if an arrangement is a lease at inception. ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The Company excludes short-term leases having initial terms of 12 months or less from ROU assets and lease liabilities and recognizes rent expense on a straight-line basis over the lease term.

Operating leases are included in right-of-use asset – operating lease and operating lease liabilities on the accompanying consolidated balance sheets.

The discount rate used to determine the commencement date present value of lease payments is the interest rate implicit in the lease, or when that is not readily determinable, the Company utilizes the applicable risk-free rate in effect at the time of the lease inception. Both ROU assets and lease liabilities exclude variable payments not based on an index or rate, which are treated as period costs. The Company's lease agreement does not contain lease incentives, significant residual value guarantees, restrictions, or covenants.

The Company has a lease agreement with lease and non-lease components, which are generally accounted for separately. For these leases, there may be variability in future lease payments as the amount of non-lease component is typically revised from one period to the next. These variable lease payments, which are primarily comprised of common area maintenance, utilities, taxes, and other related fees that are passed on from the lessor in proportion to the leased space, are recognized in operating expenses in the period in which the obligation for those payments was incurred.

2. Summary of Significant Accounting Policies – continued

Revenue Recognition

Revenue is recognized when performance obligations under the terms of a contract with customers are satisfied. For Sweat Patch and TruPatch™ product sales, this typically occurs at the time the product is shipped to the customer, and for Sweat Patch and TruPatch™ screening, this occurs upon completion of the lab screening. Revenue is measured at the amount of consideration expected to be received in exchange for transferring the products to the customer or at the amount of consideration expected to be received upon completion of the lab screening of the TruPatch™ and the Sweat Patch. The lab screening for Sweat Patch is due within 30 days of performance obligation completion. The pricing for the Sweat Patch is separate from the pricing for the screening and, as such, revenue is not allocated between the two. Rebates are offered to certain customers and are earned only after achieving specified purchase targets. The amounts of rebates which will be taken by customers are calculated and recorded as a reduction from revenue and are included in net revenue in the accompanying consolidated statements of income. The TruPatch™ product and screen are sold together as a kit. The TruPatch™ product revenue is recognized immediately with rebates and discounts offered to customers, during certain online promotions, recorded as a reduction from revenue and included in net revenue in the accompanying consolidated statements of income.

Cash receipts for future Sweat Patch screenings are recognized as a contract liability. The contract liability is classified as deferred revenue in the accompanying consolidated balance sheets when sold and as revenue when the related screening has occurred. As of December 31, 2023 and 2022 and January 1, 2022, deferred revenues for future Sweat Patch screenings were approximately $164,000, $156,000, and $88,000, respectively. During 2023, approximately $90,000 of deferred revenue at December 31, 2022, was recognized as revenue. During 2022, approximately $88,000 of deferred revenue at December 31, 2021, was recognized as revenue. As of December 31, 2023 and 2022 and January 1, 2022, the Company had accounts receivable, net of approximately $636,000, $568,000, and $677,000, respectively.

TruPatch™ screen revenue is recognized as a contract liability, classified as deferred revenue in the accompanying consolidated balance sheets, when sold and as a revenue when the screening has occurred. As of December 31, 2023, deferred revenue for future TruPatch™ screenings was approximately $700. As of December 31, 2022, there was no deferred revenue for TruPatch™. There are no related accounts receivable for TruPatch™ since the kits are sold directly to the end user and are paid in full, before they are shipped.

The Company invoices its customers for shipping and handling, which it records as revenues once the goods are shipped to the customer. Expenses for shipping costs are expensed as incurred and are included in the cost of revenues in the accompanying consolidated statements of income. Such shipping costs approximated $42,000 and $45,000, respectively, for the years ended December 31, 2023 and 2022.

2. Summary of Significant Accounting Policies – continued

Advertising and Marketing

Advertising and marketing expenses are expensed as incurred and are included in sales and marketing expenses in the accompanying consolidated statements of income. Such amounts approximated $252,700 and $164,800, respectively, for the years ended December 31, 2023 and 2022.

Income Taxes

The Company accounts for income taxes under the liability method, which requires recognition of deferred tax assets and liabilities for the future tax consequences of events that have been included in the consolidated financial statements or income tax returns. Deferred income taxes are measured using enacted tax rates expected to apply to taxable income in years in which such temporary differences are expected to be recovered or settled. The effect on deferred income taxes of a change in tax rates is recognized in the operating results of the period that includes the enactment date. In addition, a valuation allowance is established to reduce any deferred tax asset for which it is determined that it is more likely than not that some portion of the deferred tax asset will not be realized.

Tax positions are evaluated in a two-step process. The Company first determines whether it is more likely than not that a tax position will be sustained upon examination. If a tax position meets the more likely than not threshold, it is then measured to determine the amount of expense to record in the consolidated financial statements. The tax position is measured as the largest amount of expense that is greater than 50 percent likely to be realized upon ultimate settlement. The Company recognizes the potential accrued interest and penalties related to unrecognized tax benefits within income tax expense. The Company has not recorded any liability related to uncertain tax positions.

The Company files income tax returns in the United States federal jurisdiction and various state jurisdictions within the United States. For the year ended December 31, 2023, the Company incurred approximately $14,000 in penalties and interest related to such tax returns. For the year ended December 31, 2022, the Company had not incurred any penalties or interest related to such tax returns.

Stock-Based Compensation

The Company accounts for stock-based compensation, which consists primarily of share-based payments for employee services using a fair value-based method. The Company uses the Black-Scholes option pricing model to determine the fair value of stock options.

2. Summary of Significant Accounting Policies – continued

Net Income Per Share

Basic net income per share is computed by dividing net income attributable to common stockholders by the weighted average number of common shares outstanding for the period. Diluted net income per share reflects the potential dilution that could occur if non-qualified options to purchase shares of common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. For the year ended December 31, 2022, 240,000 potentially dilutive shares were included in the diluted net income per share calculated. For the year ended December 31, 2023, there were no potentially dilutive shares included in the diluted net income per share calculated.

Recently Issued Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU" or "standard") 2016-13, *Financial Instruments – Credit Losse*s (Topic 326): *Measurement of Credit Losses on Financial Instruments*.

Subsequently, the FASB issued several clarifying standard updates to clarify and improve the ASU. These ASUs significantly change how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the expected loss model that will be based on an estimate of current expected credit loss ("CECL"). Under the standard, disclosures are required to provide users of the consolidated financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. Financial assets held by the Company that are subject to the guidance in Topic 326 were trade accounts receivable.

The Company adopted the standard effective January 1, 2023. The impact of the adoption was not considered material to the consolidated financial statements and primarily resulted in new and enhanced disclosures only.

3. Inventories

Inventories consisted of the following at December 31,:

	2023	2022
Sweat Patch and TruPatch™	$ 306,233	$ 130,350
Other Sweat Patch kit components	85,704	30,494
Total inventories	$ 391,937	$ 160,844

4. Income Taxes

Net income tax expense reflects the net tax effects of temporary differences in the recognition of revenue and expenses for tax and financial statement purposes. Components of the Company's net income tax expense consisted of the following for the years ended December 31,:

	2023	2022
Current	$ 227,056	$ 98,948
Deferred	(18,518)	136,845
Income tax expense, net	$ 208,538	$ 235,793

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used from income tax purposes. The primary components of the deferred tax assets were as follows at December 31,:

	2023	2022
Deferred tax assets:		
Allowance for doubtful accounts	$ 3,150	$ 3,150
Investments in marketable securities	-	17,237
Operating leases	105	-
Property and equipment	2,392	2,455
Research and development	3,273	-
Stock based compensation	40,684	24,411
Unrealized gain on cash equivalents	(1,070)	-
Total deferred tax assets	48,534	47,253
Less valuation allowance	-	(17,237)
Deferred tax assets, net	$ 48,534	$ 30,016

Deferred income taxes may only be recorded if they are more likely than not to be realized. As of December 31, 2022, the Company had established a valuation allowance to reserve the deferred tax asset for the investments in marketable securities, due to the uncertainty of realization. During 2023, the capital loss carryforward expired.

The Company has approximately $282,000 of business tax credits for state purposes which, if unused, will expire in 2027.

5. Leases

The Company has an operating lease for its office space. Previously, the impacts of the lease being included in the balance sheet were considered immaterial. On September 1, 2023, the Company's office lease space lease agreement was renewed for three years. Our lease has a remaining lease term of 3 years.

The components of lease expense during the years ended December 31, 2023 and 2022, are as follows:

	2023	2022
Operating lease cost	$ 10,200	$ -
Variable lease cost	2,736	-
Short-term lease cost	14,900	24,681

Weighted average lease term and discount rate as of December 31, 2023, are as follows:

Weighted average remaining lease term (years)	2.67
Weighted average discount rate	4.57%

Cash paid during December 31, 2023, for operating leases was $9,700.

ROU asset obtained in exchange for lease liability during December 31, 2023, is $85,831.

Maturities of the lease liability as of December 31, 2023, are as follows:

2024	$ 29,600
2025	31,100
2026	21,400
Total lease payments	82,100
Less present value discount	(4,747)
Lease liabilities	$ 77,353

6. Commitments and Contingencies

Vendor Contracts

The Company contracts with a certified laboratory to screen and confirm its customers' Sweat Patches. This laboratory must maintain certifications with Substance Abuse and Mental Health Services Administration, Clinical Laboratory Improvement Amendment, College of American Pathologists, and American Board of Forensic Toxicology. In addition, the laboratory must voluntarily participate in a number of external proficiency programs to maintain such licenses. After providing certain notices, this laboratory can cancel the agreement, which could severely impact the Company's ability to provide these services to its customers until another similarly certified laboratory is identified which can provide protocols and standards currently used for sweat testing at a comparable cost.

The Company needs to invest in further research and development to keep abreast of current trends, new technologies, and heavily regulated protocols to which the Company's business continues to be subjected.

7. Concentrations of Credit Risk

The Company is subject to a number of risks which include, among others, development and marketing of PharmChek® and customer concentration. Financial instruments which potentially subject PharmChem to concentrations of credit risk consist principally of investments in marketable securities and trade receivables. The Company has cash investment policies that limit investments to short-term, low-risk instruments.

Two customers accounted for approximately 11% each of net revenues in 2023 and 13% and 11% of net revenues in 2022. The Company believes the risk associated with concentrations of credit for trade receivables is mitigated because (i) one of the customers is multiple federal government agencies; (ii) the remaining customer base is diversified among many corporate industries and other government agencies; (iii) the Company has an ongoing credit evaluation process; and (iv) the Company maintains an allowance for doubtful accounts. See Note 6 for disclosure regarding a significant vendor who screens and confirms customers' Sweat Patches.

8. Preferred Stock

The Company is authorized to issue 5,000,000 shares of preferred stock, $0.001 par value. No shares of this preferred stock were outstanding as of December 31, 2023 and 2022.

9. Stock Option Plan

In January 2015, the Board of Directors (the “Board”) approved the 2015 Employee Stock Option Plan (the “Plan”) whereby non-qualified options were authorized and granted to employees to purchase 1,140,000 shares of common stock with varying vesting dates up to sixty months. The Plan is administered by the Board, which determines the term of each stock option. The exercise price cannot be less than 100% of the fair value of the common stock on the date the option is granted. As of December 31, 2023, all options from this Plan have been repurchased by the Company and the Plan has been terminated.

In June 2022, 265,000 stock options were granted under a stock option plan and agreement (the “Stock Option Plan”) to an employee with various vesting dates through 2026. Effective January 26, 2023, due to the payment of a dividend of $0.20 per share, the exercise price was adjusted from $4.60 to $4.40. As a result of the modification, the Company determined the change in compensation expense immaterial and no additional expense was recognized. No options were granted during 2023.

In February 2023, 240,000 stock options were repurchased for $1.25 per share for a total transaction of $300,000 plus expenses. As of December 31, 2023 and 2022, there were 265,000 and 505,000 stock options outstanding, respectively.

The following is a summary of options as of December 31, 2023:

	Units	Weighted Average Grant-date Fair Value	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding options at December 31, 2023	265,000	$ 2.80	$ 4.40	8.5 yrs
Exercisable options at December 31, 2023	106,000	$ 2.80	$ 4.40	8.5 yrs
Options vested in 2023	53,000	$ 2.80	$ 4.40	8.5 yrs

9. Stock Option Plan – continued

The following is a summary of options as of December 31, 2022:

	Units	Weighted Average Grant-date Fair Value	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding options at December 31, 2022	505,000	$ 1.49	$ 2.49	6 yrs
Exercisable options at December 31, 2022	293,000	$ 1.49	$ 2.49	6 yrs
Options vested in 2022	53,000	$ 2.80	$ 4.60	9.5 yrs

The Company uses the Black-Scholes options pricing model to determine the fair value of options granted. No options were exercised, forfeited, or expired during 2023 or 2022. Compensation expense relating to option grants in 2023 and 2022 was $77,495 and $116,240, respectively, and was recorded in general and administrative expenses in the accompanying consolidated statements of income. At December 31, 2023 and 2022, the unrecognized expense associated with unvested options was $193,733 and $271,228, respectively. The remaining expense at December 31, 2023, is expected to be amortized over the next 3 years.

The calculated value of each common stock-based option payment transaction granted during the year ended December 31, 2022, was estimated on the grant date, as determined by using the Black-Scholes options pricing model with the following assumptions:

Exercise price	$ 4.60
Stock price	$ 2.80
Dividend yield	0%
Forfeiture rate	0%
Risk-free interest rate	3.14%
Expected life of options	5 years
Expected volatility	74.17%

10. Stockholders' Equity

In September 2021 and October 2022, the Company announced authorization for a $1,000,000 and $500,000, respectively, stock repurchase program. During 2022, 44,278 shares were repurchased and retired for a cost of $200,284. These shares were held at a $.001 par value and were repurchased for prices ranging from $4.11 to $4.51. During 2023, 291,664 shares were repurchased and retired for a cost of $717,929. These shares were held at a $.001 par value and were repurchased for prices ranging from $2.25 to $2.61. In addition, during 2023 119,600 shares were repurchased that were not retired for a cost of $309,671. The stock repurchase program will expire on August 31, 2026.

11. Revenue

The table below represents the Company's reportable revenues from customers by type for the years ended December 31,:

	2023	2022
Screening	$ 4,213,658	$ 3,924,665
Sweat Patch	1,798,745	1,912,749
Total revenues, net	$ 6,012,403	$ 5,837,414

The table below represents the Company's reportable revenues from customers by state for the years ended December 31,:

	2023	2022
Texas	$ 943,824	$ 1,067,186
Missouri	745,400	689,132
Montana	572,853	548,917
Nebraska	431,613	400,643
California	381,381	354,525
All remaining states	2,937,332	2,777,011
Total revenues, net	$ 6,012,403	$ 5,837,414

12. Dividend

In January 2023, the Board declared a $0.20 per share dividend on its common stock, with dividends payable on February 8, 2023, to stockholders of record on January 31, 2023. No such dividends were declared in 2022.

13. Related-Party Transactions

In June 2023, the Company opened cash accounts with a related-party financial institution for the sole purpose of facilitating the stock buyback program.

14. Subsequent Events

In preparing the accompanying consolidated financial statements, management of the Company has evaluated all subsequent events and transactions for potential recognition or disclosure through March 18, 2024, the date the accompanying consolidated financial statements was available for issuance.

Effective March 15, 2024, the Company's Chief Executive Officer ("CEO") and board agreed to a change in leadership. The CEO has ninety days to exercise the vested stock options. If the CEO forfeits their stock options, the Company will reverse approximately $194,000 of stock-based compensation that has been expensed through December 31, 2023. The deferred tax asset related to stock-based compensation as of December 31, 2023, is approximately $41,000.