



October 21, 2021

The company and new board members would like to thank you again for your support in the recent proxy contest. We're excited and energized about the new leadership of our CEO, Kerri Wagner, and CFO, Shana Veale.

While previous management focused on "running a tight ship" and near-term profitability, the new board and management team is centered on long-term value creation and believes increasing sales and marketing spend is the better approach. In October, we added an accounting & logistics manager in our Fort Worth office and four new sales representatives throughout the United States. We expect it to take a few quarters before we see the benefits of these investments. We know the PharmChek® Sweat Patch is an exceptional product and seek to grow its reach substantially. Therefore, shareholders can expect much higher operating expenses as a percentage of sales in the short-and medium-term.

We are actively exploring debt financing, possibly including hybrid debt financing at a strike price above the current share price. Still, we have no lender commitments, and there is no assurance we will be able to find any acceptable debt terms. We anticipate holding less cash on the balance sheet, spending money on share buybacks (we completed a small amount in the quarter, around 1.5% of shares outstanding), and increasing SG&A.

Our product's sales declined on a year-over-year basis, both in units and dollars. This decline is likely a result of a shift in drug-testing modalities between 2019-2021 as local, state, and federal governments continue to grapple with COVID. Our overarching goal at present is to stop this decline and grow revenue to increase shareholder value.

Our G&A expenses increased by approximately \$385,000 in the 3rd quarter. This increase contains costs related to the proxy fight of \$375,360 and roughly \$96,000 expensed ERP/CRM software implementation, partially offset by a reduction in wages and benefits of \$110,000.

We expect to communicate with shareholders more regularly in the future and will pen a longer shareholder letter at the end of the year once we have more to report. Thank you for your patience.

Sincerely,

Tice P. Brown
Chairman of the Board
PharmChem, Inc.
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Kerri S. Wagner
President & CEO
PharmChem, Inc.
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Shana M. Veale
VP & CFO
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PHARMCHEM, INC.

BALANCE SHEETS

**September 30, 2021 and December 31, 2020
(unaudited)**

	September 30, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,923,748	\$ 7,835,349
Investments in marketable securities	-	19,300
Accounts receivable, net of allowance for doubtful accounts of \$15,000 in 2021 and 2020	804,702	650,492
Inventories	49,508	75,185
Prepaid expenses and other current assets	6,613	69,876
Total current assets	5,784,571	8,650,202
Office equipment and leasehold improvements, net	671	797
Total assets	<u>\$ 5,785,242</u>	<u>\$ 8,650,999</u>
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 250,641	\$ 189,381
Loans payable	-	125,455
Accrued expenses and other liabilities	397,216	763,640
Deferred revenue	79,540	62,706
Total current liabilities	727,397	1,141,182
Long-Term Liabilities:		
Loans Payable – LT	\$ -	\$ -
Total long-term liabilities	-	-
Total liabilities	<u>\$ 727,397</u>	<u>\$ 1,141,182</u>
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.001 par value, 25,000,000 shares authorized, 5,762,593 issued and outstanding September 30, 2021, 5,852,593 issued and outstanding December 31, 2020	5,763	5,853
Additional paid-in capital	19,184,569	19,629,983
Accumulated deficit	(14,132,487)	(12,126,019)
Total stockholders' equity	5,057,845	7,509,817
Total liabilities and stockholders' equity	<u>\$ 5,785,242</u>	<u>\$ 8,650,999</u>

PHARMCHEM, INC.

STATEMENTS OF INCOME

Three and Nine Months Ended September 30, 2021 and 2020
(unaudited)

	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 31, 2020
Sales, net	\$ 1,613,341	\$ 1,658,826	\$ 4,786,716	\$ 5,113,831
Cost of sales	592,177	616,238	1,785,490	1,861,850
Gross profit	1,021,164	1,042,588	3,001,226	3,251,981
Operating expenses:				
Sales and marketing	119,321	104,172	337,886	338,250
General and administrative	781,880	396,531	1,564,253	1,197,640
Research and development	-	-	-	21,745
Total operating expenses	901,201	500,703	1,902,139	1,557,635
Income from operations	119,963	541,885	1,099,087	1,694,346
Other income (expense):				
Dividend and interest income	553	1,196	1,921	22,534
Forgiveness of PPP loan	-	-	125,455	-
Other income (expense)	700	-	900	(2,186)
Total other income	1,253	1,196	128,276	20,348
Income before provision for income taxes	121,216	543,081	1,227,363	1,714,694
Provision for income taxes	29,926	21,000	248,901	79,970
Net income	\$ 91,290	\$ 522,081	\$ 978,462	\$ 1,634,724
Common shares outstanding	5,762,593	5,852,593	5,762,593	5,852,593
Diluted common shares outstanding	6,002,593	6,988,319	6,002,593	6,988,319

PHARMCHEM, INC.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Nine Months Ended September 30, 2021
(unaudited)

	<u>Common Stock</u>	<u>Additional Paid in Capital</u>	<u>Accumulated Deficit</u>	<u>Total</u>
Balance at December 31, 2019	\$5,853	\$19,629,983	\$(13,501,848)	\$6,133,988
Net Income			1,961,088	1,961,088
Dividends Paid			(585,259)	(585,259)
Balance at December 31, 2020	\$5,853	\$19,629,983	\$(12,126,019)	\$7,509,817
Net Income			978,462	978,462
Dividends Paid			(702,311)	(702,311)
Repurchase of Options			(2,285,619)	(2,285,619)
Repurchase of Common Stock	(90)	(445,414)		(445,504)
Balance at September 30, 2021	<u>\$5,763</u>	<u>\$19,184,569</u>	<u>\$(14,132,487)</u>	<u>\$5,057,845</u>

PHARMCHEM, INC.

STATEMENTS OF CASH FLOWS

Nine Months Ended September 30, 2021 and 2020
(unaudited)

	<u>September 30, 2021</u>	<u>September 30, 2020</u>
Operating Activities		
Net income	\$ 978,462	\$ 1,634,724
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	126	2,034
Forgiveness of loan	(125,455)	-
Provision for doubtful accounts	-	-
Net realized (gain) on investments in marketable securities	(700)	-
Net changes in operating assets and liabilities:		
Accounts receivable	(154,210)	(161,872)
Bad debt recoveries	-	-
Inventories	25,678	(84,922)
Prepaid expenses and other current assets	63,263	40,632
Accounts payable	61,261	8,311
Accrued expenses and other liabilities	(366,425)	14,289
Deferred revenue	16,833	27,721
Total Adjustments	<u>(479,629)</u>	<u>(153,807)</u>
Net cash provided by operating activities	498,833	1,480,917
Investing Activities		
Proceeds from sale of marketable securities	20,000	-
Net cash provided by (used in) investing activities	<u>20,000</u>	<u>-</u>
Financing Activities		
Dividends paid	(702,311)	(585,259)
Repurchase of Options	(2,282,619)	-
Repurchase of Common Stock	(445,504)	-
Proceeds from loan	-	125,455
Net cash used in financing activities	<u>(3,430,434)</u>	<u>(459,804)</u>
Net increase in cash and equivalents	(2,911,601)	1,021,113
Cash and equivalents at beginning of year	<u>7,835,349</u>	<u>6,121,778</u>
Cash and equivalents at end of quarter	<u><u>\$ 4,923,748</u></u>	<u><u>\$ 7,142,891</u></u>
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for federal and state income taxes	<u><u>\$ 277,160</u></u>	<u><u>\$ 77,413</u></u>