

Financial statements and report of independent certified
public accountants

PD-Rx Pharmaceuticals, Inc.

June 30, 2015 and 2014

Contents

	Page
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	3
FINANCIAL STATEMENTS	
BALANCE SHEETS	5
STATEMENTS OF EARNINGS	6
STATEMENT OF STOCKHOLDERS' EQUITY	7
STATEMENTS OF CASH FLOWS	8
NOTES TO FINANCIAL STATEMENTS	9



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Grant Thornton LLP
211 N Robinson, Suite 1200
Oklahoma City, OK 73102-7148
T 405.218.2800
F 405.218.2801
www.GrantThornton.com

Board of Directors
PD-Rx Pharmaceuticals, Inc.

We have audited the accompanying financial statements of PD-Rx Pharmaceuticals, Inc. (an Oklahoma corporation), which comprise the balance sheets as of June 30, 2015 and 2014, and the related statements of earnings, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PD-Rx Pharmaceuticals, Inc. as of June 30, 2015 and 2014, 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.

Grant Thornton LLP

Oklahoma City, OK
November 10, 2015

PD-Rx Pharmaceuticals, Inc.

BALANCE SHEETS

June 30,

ASSETS	<u>2015</u>	<u>2014</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,231,339	\$ 6,158,912
Accounts receivable (net of allowance for doubtful accounts of \$46,308 and \$41,216 in 2015 and 2014)	2,606,430	1,420,830
Inventories	1,574,112	1,903,183
Deferred income taxes	154,174	150,704
Prepaid income taxes	281,180	690,267
Other	80,941	69,043
Total current assets	<u>10,928,176</u>	10,392,939
PROPERTY AND EQUIPMENT, net	<u>1,041,429</u>	1,108,563
	<u>\$ 11,969,605</u>	<u>\$ 11,501,502</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 412,500	\$ 542,765
Accrued and other current liabilities	789,872	702,846
Total current liabilities	<u>1,202,372</u>	1,245,611
DEFERRED INCOME TAXES	<u>49,118</u>	78,324
Total liabilities	<u>1,251,490</u>	1,323,935
COMMITMENTS AND CONTINGENCIES (Note E)		
STOCKHOLDERS' EQUITY		
Preferred stock - \$.10 par value; authorized, 10,000,000 shares; issued and outstanding, none		
Common stock - \$.01 par value; 3,000,000 authorized; 2,094,804 shares issued in 2015 and 2014, respectively	20,948	20,948
Additional paid-in capital	1,344,461	1,344,461
Retained earnings	9,564,766	9,024,218
	<u>10,930,175</u>	<u>10,389,627</u>
Less common stock in treasury - at cost; 374,902 shares in each 2015 and 2014	212,060	212,060
	<u>10,718,115</u>	<u>10,177,567</u>
	<u>\$ 11,969,605</u>	<u>\$ 11,501,502</u>

The accompanying notes are an integral part of these statements.

PD-Rx Pharmaceuticals, Inc.

STATEMENTS OF EARNINGS

Year ended June 30,

	<u>2015</u>	<u>2014</u>
Net sales	\$ 19,386,890	\$ 29,120,564
Cost of sales	<u>11,712,712</u>	<u>18,938,973</u>
Gross profit	7,674,178	10,181,591
Selling, general and administrative expenses	<u>6,793,473</u>	<u>7,090,749</u>
Operating income	880,705	3,090,842
Other income (expense)		
Interest income and other	43,852	33,444
Interest expense	<u>(49)</u>	<u>(397)</u>
Other income, net	<u>43,803</u>	<u>33,047</u>
Earnings before income taxes	924,508	3,123,889
Income tax expense	<u>383,960</u>	<u>1,159,747</u>
NET EARNINGS	<u>\$ 540,548</u>	<u>\$ 1,964,142</u>
EARNINGS PER COMMON SHARE – BASIC AND DILUTED	<u>\$ 0.31</u>	<u>\$ 1.13</u>

The accompanying notes are an integral part of these statements.

PD-Rx Pharmaceuticals, Inc.

STATEMENT OF STOCKHOLDERS' EQUITY

Years ended June 30, 2015 and 2014

	Common stock		Additional paid-in capital	Retained earnings	Common stock in treasury	Total stockholders' equity
	Shares	Amount				
Balance at July 1, 2013	2,094,804	\$ 20,948	\$ 1,344,461	\$ 7,060,076	\$ (76,894)	\$ 8,348,591
Net earnings	-	-	-	1,964,142	-	1,964,142
Purchase 49,424 shares of treasury stock	-	-	-	-	(135,166)	(135,166)
Balance at June 30, 2014	2,094,804	20,948	1,344,461	9,024,218	(212,060)	10,177,567
Net earnings	-	-	-	540,548	-	540,548
Balance at June 30, 2015	<u>2,094,804</u>	<u>\$ 20,948</u>	<u>\$ 1,344,461</u>	<u>\$ 9,564,766</u>	<u>\$ (212,060)</u>	<u>\$ 10,718,115</u>

The accompanying notes are an integral part of this statement.

PD-Rx Pharmaceuticals, Inc.

STATEMENTS OF CASH FLOWS

Year ended June 30,

	2015	2014
Cash flows from operating activities		
Net earnings	\$ 540,548	\$ 1,964,142
Adjustments to reconcile net earnings to net cash provided by operating activities		
Provision for deferred income taxes	(32,676)	(89,543)
Depreciation and amortization	190,192	187,194
Loss (gain) on disposition of property and equipment	2,184	(3,818)
Changes in assets and liabilities		
Accounts receivable, net	(1,185,600)	3,478,008
Inventories	329,071	(424,165)
Income taxes receivable	409,087	(690,267)
Other assets	(11,898)	(2,404)
Accounts payable	(130,265)	(1,372,244)
Accrued and other current liabilities	87,026	(201,213)
Income taxes payable	-	(537,942)
Net cash provided by operating activities	197,669	2,307,748
Cash flows from investing activities		
Purchases of property and equipment	(142,802)	(216,358)
Proceeds from sale of property and equipment	17,560	37,683
Net cash used in investing activities	(125,242)	(178,675)
Cash flows from financing activities		
Purchases of treasury stock	-	(135,166)
Net cash used in financing activities	-	(135,166)
NET INCREASE IN CASH AND CASH CASH EQUIVALENTS	72,427	1,993,907
Cash and cash equivalents at beginning of year	6,158,912	4,165,005
Cash and cash equivalents at end of year	\$ 6,231,339	\$ 6,158,912
 <u>Supplemental cash flow information:</u>		
Cash paid during the year for interest	\$ 49	\$ 397
Cash paid during the year for income taxes, net	\$ 7,550	\$ 2,477,500

Non-cash investing activities

During 2015, a vehicle with a carrying value of \$19,744 was exchanged for a new vehicle, resulting in a loss of \$2,184.

The accompanying notes are an integral part of these statements.

PD-Rx Pharmaceuticals, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

NOTE A - NATURE OF OPERATIONS AND SUMMARY OF ACCOUNTING POLICIES

PD-Rx Pharmaceuticals, Inc. (the Company) is involved principally in the repackaging and distribution of prepackaged pharmaceutical products. The Company's customers consist primarily of physicians, pharmacies and medical clinics located in the south-central, southeastern, and western United States.

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

1. Cash and Cash Equivalents

The Company considers highly liquid debt instruments with maturities of three months or less when acquired to be cash equivalents.

At June 30, 2015 and 2014, the Company had approximately 61% of its cash and cash equivalents with one financial institution. The Company maintains its cash in bank deposit accounts which, at times may exceed the Federal Deposit Insurance Corporation (FDIC) insurance limit. Additionally, the Company invests in short-term, collateralized repurchase agreements through its bank. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk in such accounts.

2. Accounts Receivable

Accounts receivable result primarily from product sales to customers, are due within 30 days, and are stated at amounts due, net of an allowance for doubtful accounts. Accounts outstanding longer than the contractual payment terms are considered past due.

The Company determines its allowance for doubtful accounts by considering a number of factors, including the length of time accounts receivable are past due, the Company's previous loss history, the customer's current ability to pay its obligation to the Company, and the condition of the general economy and the industry as a whole. The Company writes off accounts receivable when they become uncollectible. Late charges accrue on past due balances and are discontinued on accounts considered uncollectible.

3. Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the average cost method.

4. Property and Equipment

Property and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives used in computing depreciation are:

Building and components	7 to 39 years
Equipment	3 to 8 years
Computer software costs	5 years
Furniture and fixtures	7 years
Automobiles	5 years

PD-Rx Pharmaceuticals, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

NOTE A - NATURE OF OPERATIONS AND SUMMARY OF ACCOUNTING POLICIES - CONTINUED

4. Property and Equipment - Continued

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses are recognized based upon the estimated fair value of the asset. There were no events or changes in circumstances indicating that the carrying value of such assets may not be recoverable as of June 30, 2015 or 2014.

5. Earnings Per Share

Basic earnings per share is computed by the weighted average number of common shares outstanding, which is the number of common stock share issued less common stock in treasury. Diluted earnings per share is computed by the weighted average number of common shares outstanding less the effect of any dilutive securities. There were no dilutive securities for the years ended June 30, 2015 and 2014, respectively.

6. Revenue Recognition

Revenue is recognized on sales of products at the time of shipment. Sales are recorded net of sales returns. The Company's policy on returned products is to accept returns without charge within 15 days of shipment. Products returned between 15 and 30 days are assessed a 25% restocking charge. Returned products are not accepted after 30 days.

7. Shipping and Handling Costs

Shipping and handling costs are reported as a component of selling, general, and administrative expenses and totaled approximately \$161,000 and \$247,000 for 2015 and 2014, respectively.

8. Advertising Expense

The Company expenses advertising the first time advertising takes place. Advertising expense for 2015 and 2014 was approximately \$86,000 and \$85,000, respectively.

9. Income Taxes

The Company utilizes the asset and liability approach for accounting for deferred income taxes. Deferred income taxes are recognized for the tax consequences of temporary differences and carry-forwards by applying enacted tax rates applicable to future years to differences between the financial statement amounts and the tax bases of existing assets and liabilities. A valuation allowance is established if it is more likely than not that some portion of the deferred tax asset will not be realized.

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and recognizes penalties in income tax expense. At June 30, 2015 and 2014, the Company had no unrecognized tax benefits.

PD-Rx Pharmaceuticals, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

NOTE A - NATURE OF OPERATIONS AND SUMMARY OF ACCOUNTING POLICIES - CONTINUED

9. Income Taxes - Continued

The Company is subject to income taxes in the U.S. federal jurisdiction and various state jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. Generally, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for the years before 2012.

10. Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents approximates fair value because of the highly liquid nature of these instruments.

11. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

12. Concentration of Credit Risk and Significant Product Sales

For the years ended June 30, 2015 and 2014, sales from one product represented 16% and 49% of net sales, respectively.

NOTE B – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2015</u>	<u>2014</u>
Building and components	\$ 815,507	\$ 815,507
Equipment	1,071,435	1,033,808
Computer software costs	674,786	610,478
Furniture and fixtures	93,036	93,036
Automobiles	157,463	147,446
	<u>2,812,227</u>	<u>2,700,275</u>
Less accumulated depreciation and amortization	<u>(1,926,558)</u>	<u>(1,747,472)</u>
	885,669	952,803
Land	<u>155,760</u>	<u>155,760</u>
	<u>\$ 1,041,429</u>	<u>\$ 1,108,563</u>

Depreciation and amortization expense totaled \$190,192 and \$187,194 for the years ended June 30, 2015 and 2014, respectively.

PD-Rx Pharmaceuticals, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

NOTE C – NOTES PAYABLE

The Company has a \$500,000 revolving line of credit with a bank that matures February 2016. At June 30, 2015 and 2014, there were no amounts outstanding on the line of credit. The line of credit is payable in monthly installments of interest only at BOK Financial Corporation National prime (effective rate of 4.00% at June 30, 2015), and is collateralized by inventories, property and equipment, accounts receivable, and general intangibles. Borrowings under the line are limited to established ratios of accounts receivable and inventories as specified by the terms of the agreement. The revolving line of credit with the bank is subject to related loan agreements that require the Company, among other things, to maintain a minimum current ratio of 1.4 to 1 and a maximum debt to worth ratio of 2.0 to 1. At June 30, 2015, the Company was in compliance with these covenants.

NOTE D – INCOME TAXES

The provision for income taxes consists of the following for the years ended June 30:

	2015	2014
Current	\$ 416,636	\$ 1,249,290
Deferred	(32,676)	(89,543)
	\$ 383,960	\$ 1,159,747

The income tax expense reflected in the accompanying statements of earnings differs from the expected federal income tax rates for the following reasons for the years ended June 30:

	2015	2014
Computed at 34%	\$ 314,300	\$ 1,062,100
Increase (decrease) in income taxes		
Nondeductible expenses	3,100	3,500
Adjustment of prior year estimates	37,400	(23,200)
State income tax expense	36,400	117,800
Other	(7,240)	(453)
	\$ 383,960	\$ 1,159,747

PD-Rx Pharmaceuticals, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

NOTE D – INCOME TAXES - CONTINUED

The temporary differences that give rise to deferred tax assets (liabilities) include the following at June 30:

	<u>2015</u>	<u>2014</u>
Deferred tax assets		
Allowance for doubtful accounts	\$ 17,475	\$ 15,554
Vacation accrual	126,066	111,826
Tax basis capitalized inventory costs	<u>10,633</u>	<u>23,324</u>
Total deferred tax assets	154,174	150,704
Deferred tax liabilities		
Book basis/tax basis differences on property and equipment	<u>(49,118)</u>	<u>(78,324)</u>
Total deferred tax liabilities	<u>(49,118)</u>	<u>(78,324)</u>
Net deferred tax asset	<u>\$ 105,056</u>	<u>72,380</u>

NOTE E – COMMITMENTS AND CONTINGENCIES

The Company is subject to various federal, state, and local government regulations. Matters subject to regulation include the distribution and recordkeeping of certain pharmaceutical products. Additionally, some states have passed or proposed laws and regulations that are intended to protect the integrity of the supply channel. For example, Florida and other states have implemented pedigree requirements that require drugs to be accompanied by paperwork tracing drugs back to the manufacturers. Also, from time to time, the Company is subject to review by regulating entities to ensure compliance with laws and regulations. Management has developed policies and procedures designed to ensure that the Company complies with laws and regulations. Management is not aware of any noncompliance with such laws and regulations.

From time to time, the Company is involved in legal actions arising in the normal course of business. Management of the Company, based in part on advice of legal counsel, is of the opinion that the ultimate outcome of such actions will not have a material adverse effect on the Company's future financial position or results of operations.

PD-Rx Pharmaceuticals, Inc.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2015 and 2014

NOTE E – COMMITMENTS AND CONTINGENCIES – CONTINUED

The Company has employment agreements with its chief executive officer (CEO) and chief operating officer (COO). Provisions of these employment agreements include, among other things, the following:

- Three-year terms with automatic one-year extensions after each full year of employment.
- Base salaries with minimum 5% annual increases.
- Annual bonuses based on a percentage of gross sales.
- Contingent compensation upon the occurrence of a specified event, including:
 - Compensation through end of employment agreement upon change in control, as defined,
 - Compensation for three months following the month of death upon death of the officer, or
 - Compensation through end of employment agreement upon termination of the officer for reasons other than cause or resignation due to significant change in duties, as defined.

At June 30, 2015, the maximum contingent compensation as described above is approximately \$750,000 for each the CEO and COO. Such contingent compensation is payable in annual installments under certain circumstances. The Company does not recognize an expense or a liability relating to contingent compensation until an obligating event occurs.

The Company has keyman life insurance of \$1,000,000 per officer to partially fund the obligations in the event of death. Management believes that voluntary resignation of the officers terminates all obligations under the agreements.

The PD-Rx Pharmaceuticals, Inc. 401(k) Plan (the “Plan”) is a defined contribution plan for all eligible employees of the Company. Participants may contribute any amount to the Plan subject to applicable Internal Revenue Code limitations. The Company also has the option to make discretionary profit sharing contributions to participants. The Company’s contributions to the Plan vest to the participants based on years of service. These contributions are fully vested upon completion of three years of service, as defined by the Plan. The total Company contributions related to the Plan were approximately \$247,000 and \$242,000 for the years ended June 30, 2015 and 2014, respectively.

NOTE F – SUBSEQUENT EVENTS

The Company has evaluated events and transactions that occurred subsequent to June 30, 2015 through November 10, 2015, the date these financial statements were available to be issued. The company is not aware of any subsequent events which would require recognition or disclosure in the financial statements.