

**Financial statements and report of independent certified  
public accountants**

**PD-Rx Pharmaceuticals, Inc.**

**June 30, 2017 and 2016**

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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**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, 2017 and 2016, 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, 2017 and 2016, 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  
October 31, 2017

# PD-Rx Pharmaceuticals, Inc.

## BALANCE SHEETS

June 30,

ASSETS	<u>2017</u>	<u>2016</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 5,084,240	\$ 5,254,805
Certificates of deposit	3,250,000	2,750,000
Accounts receivable (net of allowance for doubtful accounts of \$7,866 and \$32,033 in 2017 and 2016)	1,667,489	2,340,742
Inventories	1,211,310	1,235,195
Deferred income taxes	164,281	179,380
Prepaid income taxes	230,619	447,385
Other	110,212	86,006
Total current assets	11,718,151	12,293,513
<b>PROPERTY AND EQUIPMENT, net</b>	<u>916,096</u>	<u>956,681</u>
	<u>\$ 12,634,247</u>	<u>\$ 13,250,194</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 413,066	\$ 1,042,812
Accrued and other current liabilities	840,623	927,440
Total current liabilities	1,253,689	1,970,252
<b>DEFERRED INCOME TAXES</b>	<u>43,776</u>	<u>54,155</u>
Total liabilities	1,297,465	2,024,407
<b>COMMITMENTS AND CONTINGENCIES (Note E)</b>		
<b>STOCKHOLDERS' EQUITY</b>		
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 2017 and 2016, respectively	20,948	20,948
Additional paid-in capital	1,344,461	1,344,461
Retained earnings	10,183,433	10,072,438
	11,548,842	11,437,847
Less common stock in treasury - at cost; 374,902 shares in each 2017 and 2016	(212,060)	(212,060)
	<u>11,336,782</u>	<u>11,225,787</u>
	<u>\$ 12,634,247</u>	<u>\$ 13,250,194</u>

The accompanying notes are an integral part of these statements.

**PD-Rx Pharmaceuticals, Inc.**

**STATEMENTS OF EARNINGS**

Year ended June 30,

	<u>2017</u>	<u>2016</u>
Net sales	\$ 25,987,783	\$ 21,467,738
Cost of sales	<u>18,149,421</u>	<u>13,899,846</u>
Gross profit	7,838,362	7,567,892
Selling, general and administrative expenses	<u>6,864,524</u>	<u>6,804,720</u>
Operating income	973,838	763,172
Other income (expense)		
Interest income and other	54,544	36,034
Interest expense	(230)	-
Gain (loss) on disposition of assets	<u>2,299</u>	<u>(909)</u>
Other income, net	<u>56,613</u>	<u>35,125</u>
Earnings before income taxes	1,030,451	798,297
Income tax expense	<u>403,485</u>	<u>290,625</u>
NET EARNINGS	\$ <u>626,966</u>	\$ <u>507,672</u>
 EARNINGS PER COMMON SHARE – BASIC AND DILUTED	 \$ <u>0.36</u>	 \$ <u>0.30</u>

The accompanying notes are an integral part of these statements.

# PD-Rx Pharmaceuticals, Inc.

## STATEMENT OF STOCKHOLDERS' EQUITY

Years ended June 30, 2017 and 2016

	<u>Common stock</u>					
	<u>Shares</u>	<u>Amount</u>	<u>Additional paid-in capital</u>	<u>Retained earnings</u>	<u>Common stock in treasury</u>	<u>Total stockholders' equity</u>
Balance at July 1, 2015	2,094,804	\$ 20,948	\$ 1,344,461	\$ 9,564,766	\$ (212,060)	\$ 10,718,115
Net earnings	-	-	-	507,672	-	507,672
Balance at June 30, 2016	2,094,804	20,948	1,344,461	10,072,438	(212,060)	11,225,787
Dividends Paid	-	-	-	(515,971)	-	(515,971)
Net earnings	-	-	-	626,966	-	626,966
Balance at June 30, 2017	<u>2,094,804</u>	<u>\$ 20,948</u>	<u>\$ 1,344,461</u>	<u>\$ 10,183,433</u>	<u>\$ (212,060)</u>	<u>\$ 11,336,782</u>

The accompanying notes are an integral part of this statement.

# PD-Rx Pharmaceuticals, Inc.

## STATEMENTS OF CASH FLOWS

Year ended June 30,

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Net earnings	\$ 626,966	\$ 507,672
Adjustments to reconcile net earnings to net cash provided by operating activities		
Provision for deferred income taxes	4,720	(20,169)
Depreciation and amortization	153,966	172,002
Gain (loss) on disposition of property and equipment and donation	(2,299)	1,991
Changes in assets and liabilities		
Accounts receivable, net	673,253	265,688
Inventories	23,885	338,917
Prepaid income taxes	216,766	(166,205)
Other assets	(24,206)	(5,065)
Accounts payable	(629,746)	630,312
Accrued and other current liabilities	(86,817)	137,568
Net cash provided by operating activities	<u>956,488</u>	<u>1,862,711</u>
Cash flows from investing activities		
Purchases of property and equipment	(147,082)	(89,745)
Proceeds from sale of property and equipment	36,000	500
Maturities of certificates of deposit	3,250,000	2,250,000
Purchases of certificates of deposits	(3,750,000)	(2,750,000)
Net cash used in investing activities	<u>(611,082)</u>	<u>(589,245)</u>
Cash flows from financing activities		
Dividend paid	(515,971)	-
Net cash used in investing activities	<u>(515,971)</u>	<u>-</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(170,565)</u>	<u>1,273,466</u>
Cash and cash equivalents at beginning of year	<u>5,254,805</u>	<u>3,981,339</u>
Cash and cash equivalents at end of year	\$ <u>5,084,240</u>	\$ <u>5,254,805</u>
<u>Supplemental cash flow information:</u>		
Cash paid during the year for income taxes, net	\$ <u>182,000</u>	\$ <u>477,000</u>

### Non-cash investing activities

During 2016, equipment with a carry value of \$1,082 was donated.

The accompanying notes are an integral part of these statements.



# **PD-Rx Pharmaceuticals, Inc.**

## **NOTES TO FINANCIAL STATEMENTS**

June 30, 2017 and 2016

### **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, 2017 and 2016, the Company had all of its cash and cash equivalents with one financial institution. The Company maintains its cash in bank deposit accounts and certificates of deposit 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. Certificates of Deposit**

Certificates of deposit are carried at cost, which approximates fair value. All certificates of deposit have a maturity date of less than one year.

#### **3. 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.

#### **4. Inventories**

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

# PD-Rx Pharmaceuticals, Inc.

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

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

#### 5. 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

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, 2017 or 2016.

#### 6. Earnings Per Share

Basic earnings per share is computed by the weighted average number of common shares outstanding, which is the number of common shares 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, 2017 and 2016, respectively.

#### 7. 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.

#### 8. Shipping and Handling Costs

Shipping and handling costs are reported as a component of selling, general, and administrative expenses and totaled approximately \$143,000 and \$105,000 for 2017 and 2016, respectively.

#### 9. Advertising Expense

The Company expenses advertising the first time advertising takes place. Advertising expense for 2017 and 2016 was approximately \$147,000 and \$95,000, respectively.

# **PD-Rx Pharmaceuticals, Inc.**

## **NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2017 and 2016

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

#### **10. 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, 2017 and 2016, the Company had no unrecognized tax benefits.

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 2014.

#### **11. 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.

#### **12. 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.

#### **13. Concentration of Credit Risk and Significant Product Sales**

For the years ended June 30, 2017 and 2016, sales from one product represented 9% and 17% of net sales, respectively.

#### **14. Reclassification**

Certain reclassifications have been made to prior period financial statements to conform to current period presentation. These reclassifications had no effect to net earnings or cash flows from operations.

# PD-Rx Pharmaceuticals, Inc.

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

### NOTE B – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Building and components	\$ 819,256	\$ 819,256
Equipment	1,106,543	1,132,797
Computer software costs	698,292	682,731
Furniture and fixtures	97,033	97,033
Automobiles	<u>170,584</u>	<u>157,463</u>
	2,891,708	2,889,280
Less accumulated depreciation and amortization	<u>(2,131,372)</u>	<u>(2,088,359)</u>
	760,336	800,921
Land	<u>155,760</u>	<u>155,760</u>
	<u>\$ 916,096</u>	<u>\$ 956,681</u>

Depreciation and amortization expense totaled \$153,966 and \$172,002 for the years ended June 30, 2017 and 2016, respectively.

### NOTE C – NOTES PAYABLE

The Company has a \$500,000 revolving line of credit with a bank that matures February 2018. At June 30, 2017 and 2016, 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 5% at June 30, 2017), 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, 2017, 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:

	<u>2017</u>	<u>2016</u>
Current	\$ 398,765	\$ 310,794
Deferred	<u>4,720</u>	<u>(20,169)</u>
	<u>\$ 403,485</u>	<u>\$ 290,625</u>

# PD-Rx Pharmaceuticals, Inc.

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

### NOTE D – INCOME TAXES - CONTINUED

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:

	<u>2017</u>	<u>2016</u>
Computed at 34%	\$ 350,400	\$ 271,400
Increase (decrease) in income taxes		
Nondeductible expenses	3,300	2,800
Adjustment of prior year estimates	11,000	(13,800)
State income tax expense	38,700	30,600
Other	<u>85</u>	<u>(375)</u>
	<u>\$ 403,485</u>	<u>\$ 290,625</u>

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

	<u>2017</u>	<u>2016</u>
Deferred tax assets		
Allowance for doubtful accounts	\$ 2,969	\$ 12,088
Vacation accrual	153,766	151,314
Tax basis capitalized inventory costs	<u>7,546</u>	<u>15,978</u>
Total deferred tax assets	164,281	179,380
Deferred tax liabilities		
Book basis/tax basis differences on property and equipment	<u>(43,776)</u>	<u>(54,155)</u>
Total deferred tax liabilities	<u>(43,776)</u>	<u>(54,155)</u>
Net deferred tax asset	<u>\$ 120,505</u>	<u>\$ 125,225</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 financial position or results of operations.

## **PD-Rx Pharmaceuticals, Inc.**

### **NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2017 and 2016

#### **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, 2017, 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 participant accounts. 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 \$263,000 and \$260,000 for the years ended June 30, 2017 and 2016, respectively.

#### **NOTE F – SUBSEQUENT EVENTS**

The Company has evaluated events and transactions that occurred subsequent to June 30, 2017 through October 31, 2017, 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.