



● **PD-Rx Pharmaceuticals, Inc.**
2019 Annual Report



December 27, 2019

Dear Shareholder,

The audit for PD-Rx Pharmaceuticals, Inc. is complete and we have reviewed the results, made comparisons to last year and previous years. I would like to discuss management's thoughts regarding these outcomes in the perspective of earlier years and discuss some of the changes we have made to better accommodate the changing environment we work in to better perform in terms of both sales and especially profits.

I can report to you that sales for the FY 2019 were \$20,870,974 down from last year's sales of \$24,967,418. We recorded a loss of \$12,919, lower than last year's earnings of \$621,163. The primary cause for the decrease in profitability is due to lower total sales of over \$4 million dollars. Total sales decreased primarily due to one customer's purchase reduction of \$3.6 million in low margin sales, a decrease in contract packaging by one customer totaling \$750,000, the stoppage of repackaged opioid sales of approximately \$800,000 and the additional non-controlled sales to the same accounts who were required to seek another supplier. Those decreases were mitigated by increased sales in other areas of concentration although with lower profit margin, creating a net decrease of \$4 million in sales. Loss per share was at \$0.01 per share. In regard to our Balance Sheets, our net worth decreased this year to \$7,010,839 from \$10,796,947 in 2018. The decrease in net worth was for the greatest part associated with the total dividend paid during the year of \$3,773,189. Likewise, our total assets decreased from \$12,712,265 to \$8,658,557 in 2019. Total liabilities decreased as well from \$1,915,318 in 2018 to \$1,647,718 in 2019. Shareholders' Equity in 2018 was \$11,038,048 as compared to \$7,251,940 in 2019. These equity values are reflective of the dividend paid during this fiscal year. These are the quick view financial numbers that most shareholders are interested in. I encourage you to look further at <http://ftp.pdrx.com/docs/2019AuditorsReport.pdf> for complete financial information.

As I stated last year, the pharmaceutical industry is more challenging than in the past. It is not simply finding customers and providing unparalleled service, which we strive to do on a daily basis. Our responsibility encompasses all aspects of the process of providing a portal for purchasing, software for dispensing the medication, inventory management, Drug Quality and Security Act track and trace of the pharmaceuticals purchased, reporting requirements to state and federal agencies, and many more.

As a result of the many opioid lawsuits pending against manufacturers and distributors (approx. 3,000) our product liability carrier with very little notice opted to not insure against these suits last year. This action was a direct result of the nationwide litigation and not reflective of our Company's actions. After a very thorough search by our insurance broker and his team, no other carrier could be identified that would extend coverage regarding the social and financial impacts addressed in this type of litigation. Carriers were more focused rather on personal injury and property coverage which is the mainstay of commercial insurers.

As a result of the loss of a significant group of medications for the treatment of acute and chronic pain, we did expect a drop in sales as some clinics sought out suppliers who were still offering these medications along with other complementary pharmaceuticals, in other cases, some clinics are discontinuing dispensing altogether.



We have been in this business for over 30 years as an intact experienced management team. We act responsibly as the situation demands. We are expanding our marketing in areas we believe will be long term, more stable and profitable. Sales and more importantly profits for the next coming years will be affected by this turn of events which are beyond our control. In light of the changing environment, the management of PD-Rx is in the process of making significant reductions in selling, general and administrative expenses during the current fiscal year. The management team is focused on reducing expense as we explore changes in our markets.

In summary, I speak for the entire PD-Rx Pharmaceuticals management team when I tell you that we appreciate the opportunity to manage this Company in a responsible, equitable, and ethical way. I believe our past record should give you solace that no matter what the future holds, you have an experienced team of leaders dedicated to the challenges ahead and capable of overcoming adversity in an ever changing world of pharmaceuticals.

Sincerely,

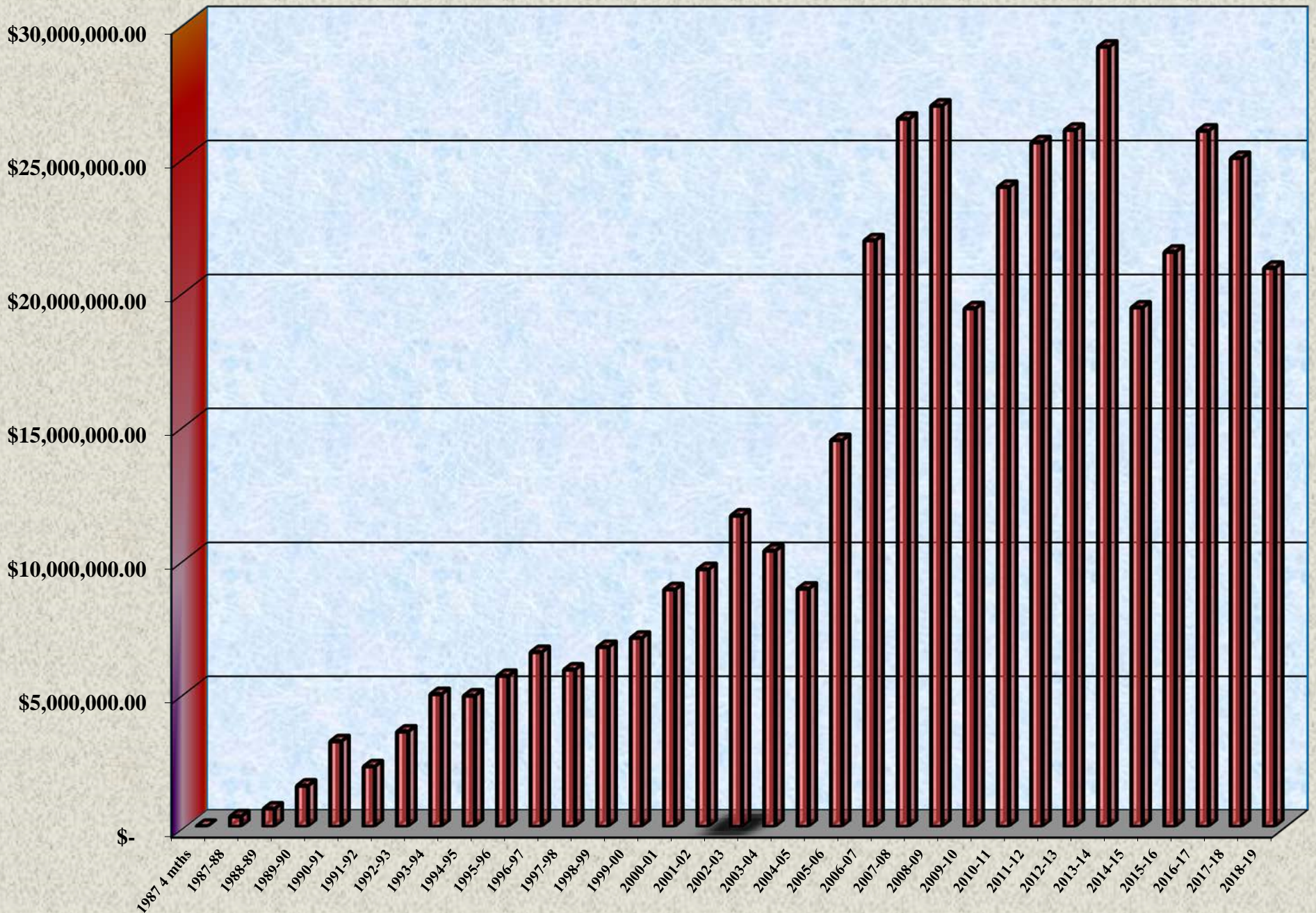
A handwritten signature in cursive script, appearing to read 'Robert D. Holsey M.D.'.

Robert D. Holsey, D.Ph., D.O.
President and Chief Executive Officer

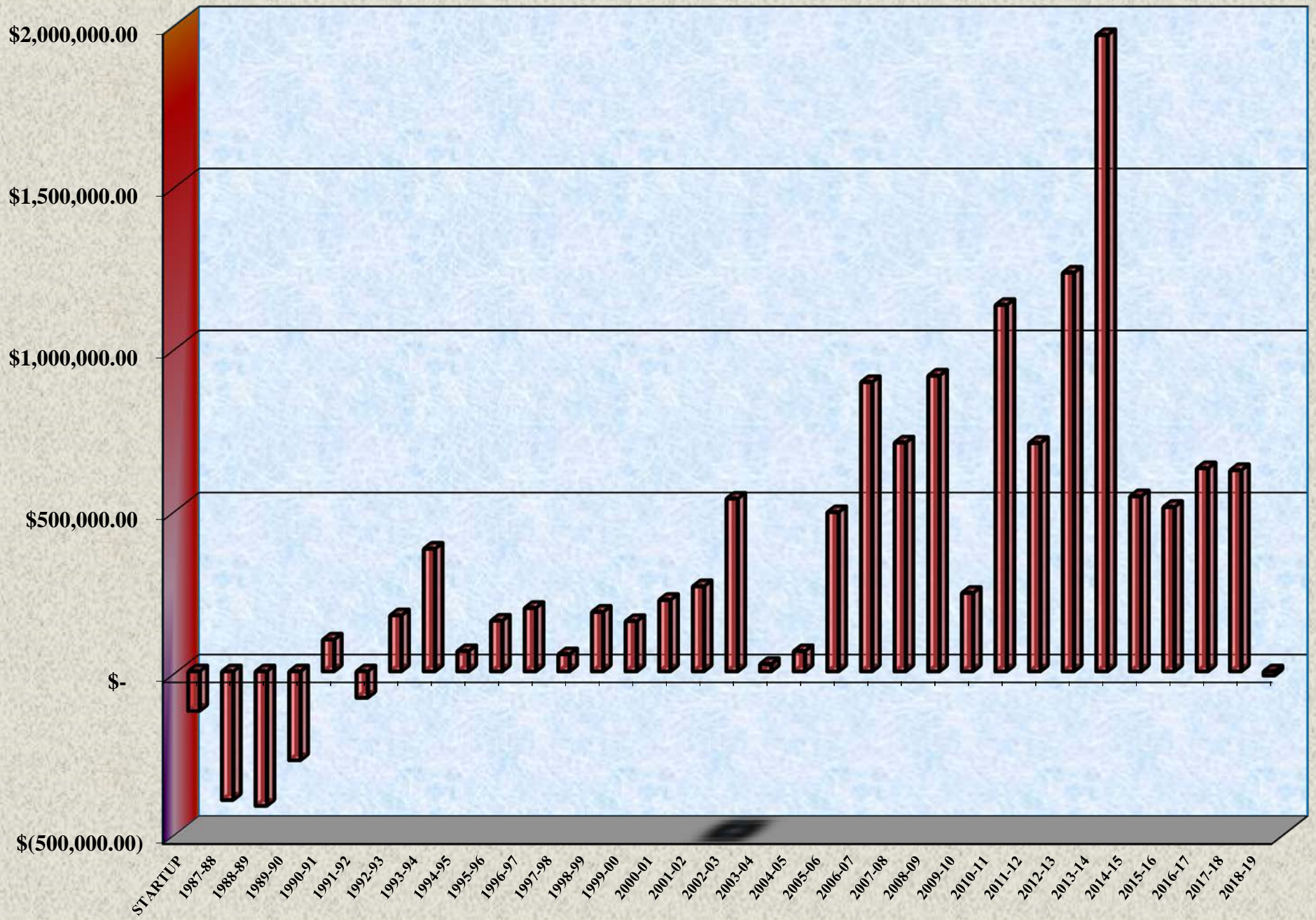


| FINANCIAL HIGHLIGHTS | 2019 | Year Ended June 30, | | | |
|-----------------------------|---------------|---------------------|---------------|---------------|---------------|
| | | 2018 | 2017 | 2016 | 2015 |
| Revenues | \$ 20,870,974 | \$ 24,967,418 | \$ 25,987,783 | \$ 21,467,738 | \$ 19,386,890 |
| Operating Income (Loss) | (65,734) | 890,716 | 973,838 | 762,263 | 880,705 |
| Net Income (Loss) | (12,919) | 621,163 | 626,966 | 507,672 | 540,548 |
| Net Income (Loss) per share | \$ (0.01) | \$ 0.36 | \$ 0.36 | \$ 0.30 | \$ 0.31 |

PD-Rx Annual Sales 2019



PD-Rx Annual Income 2019





Statement of Belief

- PD-Rx recognizes that we are a pharmaceutical service organization, and the continued success of the company is dependent on the day-to-day satisfaction of our customers.
 - We endorse a partnership of shared values-integrity, responsiveness, affordability, achievement and quality.
- We take the position that the long-term needs and expectations of our customers and PD-Rx are inseparable. We seek long terms business relationships based on our reputation of superior performance and customer service.
- We recognize that continuous improvements in technologies, automation, and operating concepts, are essential to the company's competitive position and health.

Corporate Overview

PD-Rx is a publicly traded corporation (Symbol: PDRX.PK) that is audited each year by one of the top-auditing firms in the country. The company maintains its own accounting and controller staff, along with Regulatory Affairs experts, Chief Pharmacist of Operations, Staffed Physician, FDA & DEA Compliance Officers, Quality Assurance Teams and Quality Control Production Teams. We maintain over 173 checks and balances in each production run, to make sure we provide the best quality products on the market. Representing PD-Rx is a team of over 24 sales experts throughout the United States, where PD-Rx maintains all 50 state boards of pharmacy and controlled substance distribution licenses. PD-Rx maintains a liability insurance policy of 2 Million in general coverage, 5 Million in Products Liabilities and a 10 Million-Dollar Umbrella Policy as additional insurance over and above the original manufacturer's liability coverage. The Board of Directors and key individual listed below bring with them over 240 years of experience in the pharmaceuticals industry and business relations. PD-Rx was original incorporated on September 1986 in the State of Oklahoma, and on February 5th, 1988, PD-Rx merged with Buckingham Venture Corp and re-incorporated in the State of Colorado, where they raised additional funds through a public offering and continued to raise additional capital for the next several years. PD-Rx Pharmaceuticals re-incorporated back into the State of Oklahoma on December 26th, 1990.



State of the Art Facility

- PD-Rx owns and operates a production and warehouse facility consisting of 27,600 square feet.
- The production facility has 4 separate clean rooms each with their own controlled environment.
- We provide 24 hour monitoring of relative humidity and temperature in our storage areas.
- Each production room is equipped with a Class 1 Micron Filtration Systems that can filter down to 3.0 Microns.
- The facility is equipped with a freestanding generator system that is capable of producing over 430 AMP of electricity, enough to power the whole plant without additional electricity from outside sources.
- The plant has been outfitted with the best security system available, consisting of motion detectors, glass break sensors, keypad entry, roll down steel doors, and internet networked cameras for 24 hours surveillance and security cages and vaults throughout the building.
- PD-Rx maintains its own staff of computer programmers and IT support staff, necessary to computerize our account on a national scale, and maintain the websites and internet portal systems for customer and representatives in the field.
- In 2009 PD-Rx completed the requirements the National Association of the Board of Pharmacy (NABP) to be Verified-Accredited Wholesale Distributors (**VAWD**) certified. The requirements require recertification every three years and PD-Rx maintained that certification. Our most recent VAWD recertification was completed in 2018. PD-Rx is accredited through September 2021.

Senior Management Team

David W. Dare, D.Ph. (Age 66) – Director

Mr. Dare has served as a Director since the Company's inception. He is a registered pharmacist. Most recently, he was a pharmacist with Walgreens. Prior to that, he was the owner and operator of a retail pharmacy and drug store for fourteen years in Binger, Oklahoma. Mr. Dare attended Oklahoma State University and Central State University prior to receiving his pharmacy degree in 1977 from the University of Oklahoma. From 1977 to 1978, he was employed in Springfield, Missouri, at a community pharmacy involved with nursing home unit-of-use packaging. Mr. Dare was employed by Baptist Medical Center in Oklahoma City, Oklahoma, from 1978 to 1982, as a staff pharmacist. Mr. Dare has returned to active participation with the Board of Directors.

Robert D. Holsey, D.O., D.Ph. (Age 67) - President, Chief Executive Officer, and Director

Dr. Holsey has served as a Director and President since the Company's inception. He is well suited for his role in the Company, drawing from both his education and his experience as a physician and a pharmacist. His combined years of experience in operating a successful pharmacy, his own private patient physician practice, and, in addition, his years of management experience in the repackaging/wholesale sector while at PD-Rx provides him the expertise necessary in carrying out his duties as President. Dr. Holsey graduated from the Altus Junior College and Central State University before entering pharmacy school. He was awarded a pharmacy degree in 1977 from the University of Oklahoma, School of Pharmacy, where he served as senior class president. As a Registered Pharmacist, he owned and operated a pharmacy in Binger, Oklahoma, prior to entering medical school in 1978. Dr. Holsey attended the Oklahoma State University College of Osteopathic Medicine and Surgery in Tulsa, Oklahoma. He was awarded a Doctor of Osteopathy degree in 1981 and completed his internship at Fort Worth Osteopathic Medical Center. From 1982 until 1986, Dr. Holsey was in private practice in Binger, Oklahoma. Dr. Holsey is currently active as a board certified family practice physician.

Jack L. McCall, II (Age 60) - Executive Vice President, Chief Operations Officer, Director, and Secretary

Mr. McCall has served as one of the Directors since September 1996 and as the Executive Vice President since December 1993. Previously with PD-Rx, Mr. McCall held the position of Vice President of Sales and Marketing and began his career with PD-Rx in May of 1989. Throughout his years of management experience Mr. McCall has excelled in understanding the pharmaceutical market trends and kept the Company ahead of the curve with his valuable intuition and market skills. He is a 1983 graduate of Southern Connecticut State University in New Haven, Connecticut with a Bachelor of Science Degree. He also attended the University of Massachusetts in Amherst for sales and product development training. Prior to joining PD-Rx, Mr. McCall spent 5 years

employed with ParMed Pharmaceuticals in Niagara Falls, New York, known as one of the largest distributorships in the US. Mr. McCall has contract experience with national chain stores, major wholesalers, and state and federal contracts.

Robert L. Baker, CPA, (Age 71) - Chief Financial Officer, Director, and Treasurer

Mr. Baker has been a Director of the company since August, 1996. Previously, Mr. Baker has served PD-Rx since inception in a financial consulting capacity and has been involved in the preparation of various business plans for the Company as well as accounting system setup and organization for the repackaging operation. In 2012 Mr. Baker returned to daily responsibilities with PD-Rx. He is a Certified Public Accountant and previously served in various management positions in the oil and gas industry. Mr. Baker has an accounting degree from Northwestern Oklahoma State University in Alva, Oklahoma.

Ben Silva, D.Ph. (Age 75) – Director of Pharmaceutical Operations

In 2000 Mr. Silva began employment with PD-Rx Pharmaceuticals Inc. of Oklahoma City as Director of Pharmaceutical Operations. In 1990, following five years of service as the Athletic Ticket Manager for the University of Oklahoma, Mr. Silva was employed by Sequoyah Healthcare Inc. and Neighbor Care Healthcare Inc. which were closed door pharmacies servicing nursing homes. From 1969 to 1985, Mr. Silva has served as a pharmacist and as a General Manager with both multi-site retail and clinic pharmacies. He has also owned his own retail pharmacy for eight years. Mr. Silva has been a Registered Pharmacist since 1969 and a Doctor of Pharmacy since 2001. He attended the University of Oklahoma and graduated from the O.U. College of Pharmacy in 1969.

Robert L. Surovec (71) Regulatory Affairs Compliance Officer

Mr. Surovec joined PD-Rx in 2008, serving as Regulatory Affairs Compliance Officer. He had previously been employed by the Drug Enforcement Administration (DEA) from 1971 to 2005. From 2000 to 2005 Mr. Surovec had served as Assistant Special Agent in Charge of the DEA Oklahoma City District Office. In 1996, Mr. Surovec was transferred to the DEA Headquarters, Washington, D.C. where he served as a Staff Coordinator with the Domestic Operations West Section and as an Inspector with the Office of Professional Responsibility (OPR). In 1998, Mr. Surovec was promoted to Section Chief of the Domestic Operations West Section. Mr. Surovec has previously served as a Special Agent with the DEA from 1971 to 1991, and in supervisory capacities in the DEA Houston Field Office. Mr. Surovec is a graduate of the University of Texas at Austin with a BA in Government.

Quality Production

The packaging operations at PD-Rx are completely automated with state of the art pharmaceutical repackaging / manufacturing equipment. Our automated production lines start with a bottle orientator and ends with the finished product bar coded and shrunk wrapped into 10 bottle tray packs. FDA guidelines require that a retention sample of each production run be kept on-site and made available to the FDA for inspection. PD-Rx photographs each product from a production runs and stores that photo with each lot number so assigned with every production run for future clarifications. Every production run is given a new lot number that is linked to the retention sample and the original manufacturer and its pedigrees. Of the 4 production rooms, and 4 automated lines, each line is capable of manufacturing 1500-2000 bottles per hour. In addition to that we maintain 4 semi-automated production areas to handle smaller production runs.

Each container closure system (bottle and cap) used by PD-Rx will meet or exceed U.S. Pharmacopoeia Standards for moisture and light resistant barriers. Each bottle will be provided with a child resistant cap (CRC) and a tamper evident foil liner.



PD-Rx currently offers over 2600 prepackaged medications and over 2000 pass through items (i.e., creams, ointments, ophthalmics, otics, liquids & suspensions etc). Our injectable line is represented by over 700 different brand and generic medications.

PD-Rx will help you review drug cost and therapeutic substitutions. PD-Rx offers professional assistance by staffed pharmacists and physicians.

Quality Control

PD-Rx maintains over 173 stringent quality checks during each production run. Every order that is prepared for shipment is tracked and recorded. On the bottom of each 10 pack tray is a bar code that we scan and record the lot number and expiration date of the product when invoiced. From this information, PD-Rx will be able to run a Drug Distribution Data report also known as a DDD report. With this information in house, PD-Rx will be able to notify a clinic of a product recall within minutes. This report will be provided free of charge and is available at anytime. In



addition to this information, you will be able to go on line with www.pdrx.com and review your pedigree history simply by scanning the bar code on each bottle to track the complete flow of the products that you purchase from PD-Rx; we are 100 % pedigreed on all products offered to our customers since 2005.

Packaging

PD-Rx will provide you with an approved unit of use container closure system that meets or exceeds the U. S. Pharmacopeia Standards. The container closure system

starts with a White High Density Polyethylene (HDPE) bottles with a Child Resistant Cap (CRC) that is hermetically sealed with a tamper evident foil heat induction liner that has a center pull tab for easy opening. This type of foil liner will alert you if any tampering of medication has occurred.

Prescription Bottle: Shall consist of White High Density Polyethylene (HDPE) with a Child Resistant Cap (CRC) manufactured of White Density Polyethylene Cap and a High Density Polypropylene Inner Liner. Each bottle will be sealed with a Tamper Evident Foil liner that is hermetically sealed with a heat induction liner that has an Easy Open Seal center pull-tab.

Label Design: Each label will be made available with three removable tabs for dispensing and pharmacy log tracking capabilities. Each removable tab will identify the National Drug Code number, Product Description Strength, Expiration Date and Lot Number on each tab. Each Label will provide a set of so defined blank prescribing instructions both in English and Spanish, standard warning, Organoleptic markings, Bar Coded NDC #, and barcode Lot # and Expiration Dates.

All unit of use bottles are packaged in 10 pack trays and shrunk wrapped as a single unit for ease of storage and additional protection with tracking barcode on the bottom of each tray.

Pedigree Supply Chain

PD-Rx Pharmaceuticals, Inc. does its best to source all products from the manufacturers on a direct basis, and utilizes wholesalers and distributors around the US as secondary sources. The operations of PD-Rx are 100% pedigreed, and have been since 2005. PD-Rx maintains a Centralized Pedigree Repository, and you can review and pull up all of your pedigree information on line at our website www.pdrx.com under a customer log-in. You will be able to identify the manufacturer that we bought the product from, and the same information is available on every wholesaler or distributor in between that handled the product.

Drug Supply Chain Security

PD-Rx Pharmaceuticals, Inc. has always continued to assure compliance with all laws and new legislation relating to the prescription drug distribution chain. In 2013 the Drug Quality and Security Act was signed into law, part of which addressed drug supply chain security for the pharmaceutical supply distribution chain including PD-Rx. The Act establishes requirements which facilitate the tracing of prescription drug products throughout the supply process from the manufacturer to the smallest saleable unit. Implementation of the Act was phased in over approximately ten years. In November 2018, PD-Rx completed its compliance phase. This enables the Company to track each individualized serialized product.

Dispensing Platforms

PD-Rx offers a Manual Dispensing System for all customers at no additional cost. Our manual log system provides 10 recordkeeping labels to match the 10 bottle trays provided as a convenient handling package.

If the customer wishes to offer Patient Education Leaflets to their patients, this service is available on line at www.pdrx.com for both English and Spanish printed leaflets. The leaflets are printable from the PD-Rx website and are updated on our central server.

PD-Rx Net is a Web Based application that allows our customer's access through a web portal that can be reached from anywhere one can access a web browser.

The application is designed to track prescriptions filled at the point of care and print prescription labels for prescription that are filled onsite.

The application is capable of sending an electronic prescription a feature we call PD-Rx Link, and is Sure Script certified to their standards.



The application also offers a control substances reporting module call C-Report that meets the needs of state reporting requirements of individual states and their Prescription Drug Monitoring Programs requirements. With each prescription a Patient Education Leaflets is available in English and Spanish.

Computer Programmers and IT Support Staff

PD-Rx has finished its fourth rewrite of the PD-Rx Net program with new enhanced features, reports, and will be adding new functions to the platform this year for all of our customers that move over to the new versions.

PD-Rx has always written its own software, and has been doing so since 1986. We currently have three full time programmers and two full time IT & network support staff.

HIPAA and Network Security Profiles

Technology implementation of HIPAA covers three areas:

1. Physical Data Center Security
 - a. Access codes are required for entrance to data facility
 - b. Facility is monitored by closed circuit TV cameras to monitor and record internal and external building activities with an off-site hosted system.
 - c. Security system with motion sensors monitors the building 24 x 7.
 - d. Data backups are encrypted and sent off-site to a remote location.
 - e. Backups are verified regularly to assure recovery procedure

2. Network Security
 - a. Data is protected by redundant enterprise level firewalls.
 - b. All data transferred over the internet uses SSL with true 256-bit encryption.
 - c. All accounting and inventory systems use off-site backup systems through a third party provider.

3. Data Security
 - a. Separate individual user names and passwords.
 - b. User level access control (access can be restricted based on individual user accounts).

General and Contact Information

Shipping/Mailing Address:

PD-Rx Pharmaceuticals, Inc.

727 North Ann Arbor

Oklahoma City, OK 73127

LockBox Remittance Address:

PD-Rx Pharmaceuticals, Inc.

P.O. Box 960149

Oklahoma City, OK 73196

Local: (405) 942-3040

Fax: (405) 942-5471

Toll-Free: (800) 299-7379

Toll Free Fax: (800) 370-3556

Website: www.pdrx.com

For Order Entry, Online Tracking Shipments, Billing History, & Pedigree Report.

General E-mail: pdrx@pdrx.com

Hours of Operation: Monday through Friday

7:00 am to 5:00 pm (CST)

Corporate Information

Corporate Headquarters

727 North Ann Arbor
Oklahoma City, Oklahoma 73127
T - 1-405-942-3040
F - 1-405-942-5471

Common Stock

Stock Symbol: PDRX
OTC Bulletin Board

Stock Transfer Agent

Computershare
P.O Box 30170
College Station, TX
77842-3170
T - 1-303-262-0678

www.computershare.com

For all current Stock Certificate Holders please make sure that you keep Computershare updated as to your current address. If Computershare is unable to contact you as a Stock Certificate Holders, your property will be turned over to the state as unclaimed property. Shareholders Service Line is 1-800-962-4284

News and Press Information

Please visit our website at
www.pdrx.com

Independent Accountants

Grant Thornton
Oklahoma City, OK