



PD-Rx Pharmaceuticals, Inc.

Annual Report

2012

PD-Rx Pharmaceuticals, Inc.



November 2, 2012

To Our Shareholders,

PD-Rx Pharmaceuticals would like to report to you about our fiscal year 2012. These are challenging times. It seems that nothing is business as usual. Our economy continues to struggle and that is being reflected in the sales and our planning for the future. Never the less, this has been a good year for PD-Rx.

I can report to you that sales for the year were \$25,553,544 up from last year's sales of \$23,887,231. We continue to be profitable with net earnings of \$705,159 down from last year's earnings of \$1,131,019. The primary cause for the decrease in profitability is due to sales of lower margin products and the competition in the marketplace. Earnings per share decreased from \$0.64 per share to \$0.40 per share. Our net worth increased this year to \$8,356,459 from \$8,171,709 in 2011. The detailed and complete financial statements can be found accompanying this letter. I encourage you to read and review our complete report.

Our technology approach continues to be refined and we have successfully integrated our "Cloud" dispensing software with the physician's EMR. This form of integration allows every physician using an EMR to be able to send a prescription electronically for filling at the physician's office. Dispensing has never been so easy! All the necessary patient demographic fields are automatically filled in and with a few clicks of the mouse a patient can get their medications directly from their doctors office.

TriMarc Laboratories division continues to grow in both sales and product offerings. This year we have successfully added a new topical anesthetic product called LC4 and LC5 which has been met with brisk sales and good product reviews.

In closing, although 2012 has been a good year, we remain guarded in our expectations for next year. The economy continues to suffer, competition remains brisk. In response to these factors, we are hiring and training new sales representatives, tightening our belt, and looking for new opportunities that offer higher margins of profit.

All of us at PD-Rx recognize the financial commitment each investor makes and we will always strive to earn that commitment as a prudent manager of your investment.

Sincerely,

Robert D. Holsey, D.Ph., D.O.

President and Chief Executive Officer

Corporate Overview



PD-Rx/TriMarc 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/TriMarc is team of over 25 sales experts throughout the United States**, where PD-Rx maintains all 50 state boards of pharmacy and controlled substance distribution licenses. PD-Rx/TriMarc maintains a liability insurance policy of 1 Million in general coverage and a 2 Million-Dollar Umbrella Policy as additional insurance over and above the original manufacturer's liability coverage. The Board of Directors brings with them over 100 years of experience in pharmaceuticals practice and/or business relations. PD-Rx was originally 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/TriMarc 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 personnel necessary to computerize our account on a national scale with a web base system. We maintain our own websites and internet portal systems for ordering and reporting requirements in the pharmaceutical industry. In 2009 PD-Rx completed the requirements to be VAWD certified.

Quality Production

The packaging operations at PD-Rx are completely automated with state of the art pharmaceutical packaging and 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 each production run and stores that photo with each lot number so assigned 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 the automated lines, PD-Rx maintains 4 semi-automated tablet counting machine and production areas to handle smaller production runs.

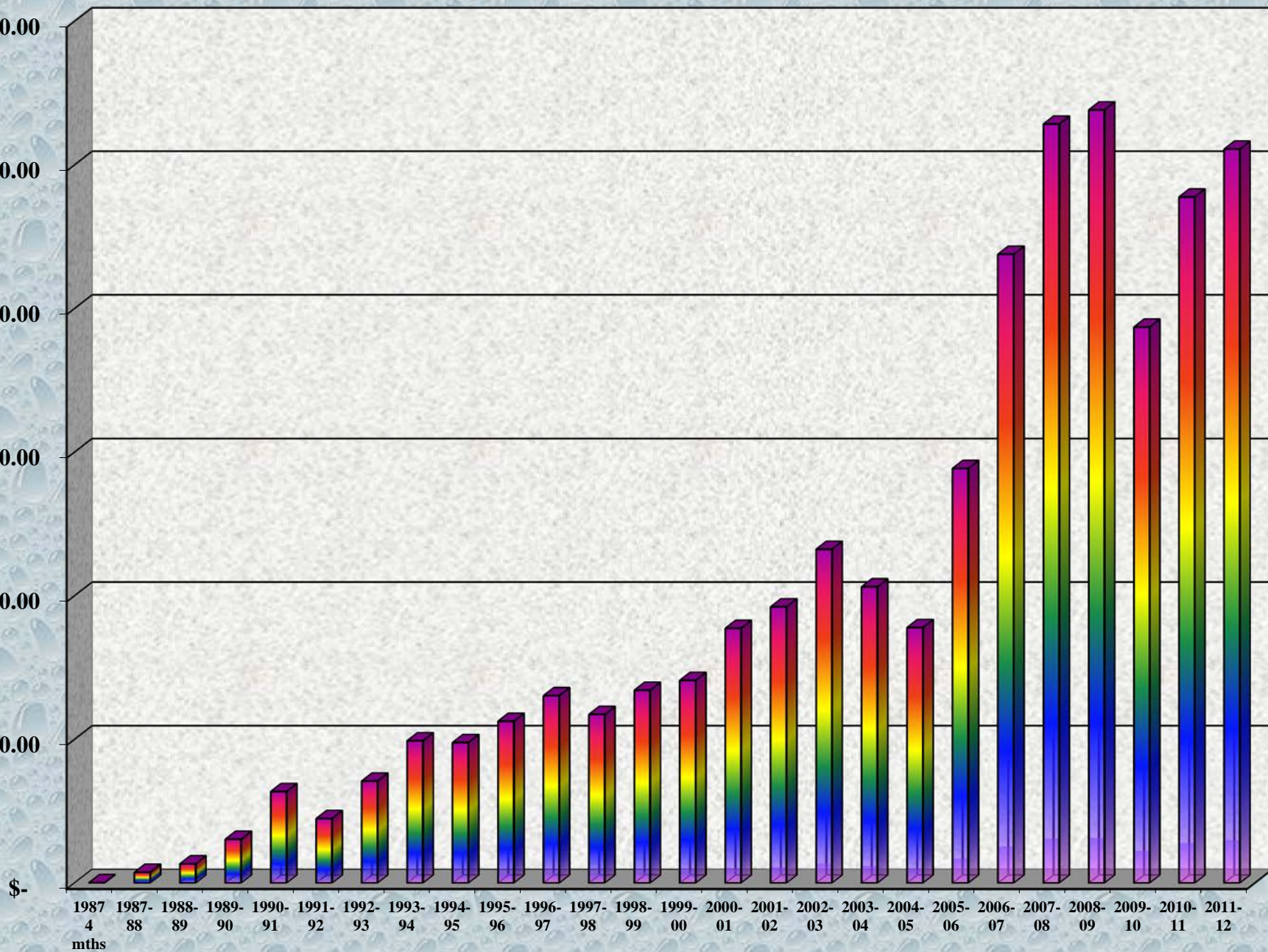
PD-Rx Pharmaceuticals, Inc.

STATEMENTS OF EARNINGS

Year ended June 30,

	<u>2012</u>	<u>2011</u>
Net sales	\$ 25,553,544	\$ 23,887,231
Cost of sales	<u>17,801,972</u>	<u>15,720,995</u>
Gross profit	7,751,572	8,166,236
Selling, general and administrative expenses	<u>6,621,292</u>	<u>6,343,385</u>
Operating income	1,130,280	1,822,851
Other income (expense)		
Interest income and other	31,849	30,568
Interest expense	<u>(3,552)</u>	<u>(9,303)</u>
Other income, net	<u>28,297</u>	<u>21,265</u>
Earnings before income taxes	1,158,577	1,844,116
Income tax expense	<u>453,418</u>	<u>713,097</u>
NET EARNINGS	\$ <u>705,159</u>	\$ <u>1,131,019</u>
 EARNINGS PER COMMON SHARE - BASIC	 \$.40	 \$.64
EARNINGS PER COMMON SHARE - DILUTED	\$.40	<u>\$.64</u>

PD-Rx Annual Sales 2012



Allocation of Income Report Fiscal 2012

▣ Cost of Sales

▣ Selling, General, and Administrative Expenses

▣ Income Tax Expense

▣ Net Earnings



PD-Rx Pharmaceuticals, Inc.

STATEMENTS OF CASH FLOWS

Year ended June 30,

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Net earnings	\$ 705,159	\$ 1,131,019
Adjustments to reconcile net earnings to net cash provided by operating activities		
Amortization of note payable discount	751	5,192
Provision for deferred income taxes	1,584	(6,682)
Depreciation and amortization	146,597	127,375
Loss (gain) on disposition of property and equipment	1,317	(1,205)
Changes in assets and liabilities		
Accounts receivable, net	478,655	(381,669)
Inventories	333,026	(250,451)
Income taxes receivable	(126,674)	999
Other assets	76,624	12,881
Accounts payable	(247,068)	600,462
Accrued and other current liabilities	(177,673)	221,224
Income taxes payable	<u>(21,979)</u>	<u>21,979</u>
Net cash provided by operating activities	1,170,319	1,481,124
Cash flows from investing activities		
Purchases of property and equipment	(283,205)	(117,947)
Proceeds from sale of property and equipment	<u>14,500</u>	<u>1,999</u>
Net cash used in investing activities	(268,705)	(115,948)
Cash flows from financing activities		
Principal payments on note payable	(99,984)	(98,395)
Acquisition of common stock for treasury	<u>-</u>	<u>(1,113)</u>
Net cash used in financing activities	<u>(99,984)</u>	<u>(99,508)</u>
NET INCREASE IN CASH AND CASH CASH EQUIVALENTS	801,630	1,265,668
Cash and cash equivalents at beginning of year	<u>3,083,988</u>	<u>1,818,320</u>
Cash and cash equivalents at end of year	\$ <u>3,885,618</u>	\$ <u>3,083,988</u>
Cash paid during the year for interest	\$ <u>2,801</u>	\$ <u>8,552</u>
Cash paid during the year for income taxes, net	\$ <u>600,487</u>	\$ <u>696,800</u>

PD-Rx Pharmaceuticals, Inc.

BALANCE SHEETS

June 30,

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,885,618	\$ 3,083,988
Accounts receivable (net of allowance for doubtful accounts of \$78,000 and \$40,000 in 2012 and 2011)	1,506,042	1,984,697
Inventories	1,591,046	1,924,072
Deferred income taxes	96,312	72,352
Income taxes receivable	126,674	-
Other	73,794	150,418
Total current assets	7,279,486	7,215,527
PROPERTY AND EQUIPMENT, net	1,076,973	956,182
	<u>\$ 8,356,459</u>	<u>\$ 8,171,709</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 626,113	\$ 873,181
Accrued and other current liabilities	531,846	709,519
Current portion of notes payable	-	66,776
Income taxes payable	-	21,979
Total current liabilities	1,157,959	1,671,455
DEFERRED INCOME TAXES	80,720	55,176
LONG-TERM NOTES PAYABLE, net of current portion	-	32,457
Total liabilities	1,238,679	1,759,088
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 2012 and 2011, respectively	20,948	20,948
Additional paid-in capital	1,344,461	1,344,461
Retained earnings	5,829,265	5,124,106
	7,194,674	6,489,515
Less common stock in treasury - at cost; 325,478 shares in 2012 and 2011, respectively	76,894	76,894
	<u>7,117,780</u>	<u>6,412,621</u>
	<u>\$ 8,356,459</u>	<u>\$ 8,171,709</u>

PD-Rx Pharmaceuticals, Inc.

STATEMENT OF STOCKHOLDERS' EQUITY

Years ended June 30, 2012 and 2011

	<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, 2010	2,094,804	\$ 20,948	\$ 1,344,461	\$ 3,993,087	\$ (75,781)	\$ 5,282,715
Acquisition of common stock for treasury	-	-	-	-	(1,113)	(1,113)
Net earnings	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,131,019</u>	<u>-</u>	<u>1,131,019</u>
Balance at June 30, 2011	2,094,804	20,948	1,344,461	5,124,106	(76,894)	6,412,621
Net earnings	<u>-</u>	<u>-</u>	<u>-</u>	<u>705,159</u>	<u>-</u>	<u>705,159</u>
Balance at June 30, 2012	<u>2,094,804</u>	<u>\$ 20,948</u>	<u>\$ 1,344,461</u>	<u>\$ 5,829,265</u>	<u>\$ (76,894)</u>	<u>\$ 7,117,780</u>

PD-Rx Pharmaceuticals, Inc.

June 30, 2012 and 2011

PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2012</u>	<u>2011</u>
Building and components	\$ 815,507	\$ 783,096
Equipment	776,942	680,197
Computer software costs	551,120	454,941
Furniture and fixtures	91,167	77,936
Automobiles	126,080	115,983
	2,360,816	2,112,153
Less accumulated depreciation and amortization	<u>1,439,603</u>	<u>1,311,731</u>
	921,213	800,422
Land	<u>155,760</u>	<u>155,760</u>
	<u>\$ 1,076,973</u>	<u>\$ 956,182</u>

NOTES PAYABLE

The Company also has a \$500,000 revolving line of credit with a bank that matures February 2013. At June 30, 2012 and 2011, 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, 2012), 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 and the note payable to bank are 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, 2012, the Company was in compliance with these covenants.

PD-Rx Pharmaceuticals, Inc.

June 30, 2012 and 2011

INCOME TAXES

The provision for (benefit from) income taxes consists of the following for the years ended June 30:

	<u>2012</u>	<u>2011</u>
Current	\$ 451,834	\$ 719,779
Deferred	<u>1,584</u>	<u>(6,682)</u>
	<u>\$ 453,418</u>	<u>\$ 713,097</u>

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>2012</u>	<u>2011</u>
Computed at 34%	\$ 393,900	\$ 627,000
Increase (decrease) in income taxes		
Nondeductible expenses	3,300	4,600
Adjustment of prior year estimates	(13,400)	12,100
State income tax expense	69,500	69,400
Other	<u>118</u>	<u>(3)</u>
	<u>\$ 453,418</u>	<u>\$ 713,097</u>

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

	2011	2010
Deferred tax assets		
Allowance for doubtful accounts	\$ 29,434	\$ 15,094
Vacation accrual	54,451	44,720
Tax basis capitalized inventory costs	<u>12,427</u>	<u>12,538</u>
Total deferred tax assets	96,312	72,352
Deferred tax liabilities		
Book basis/tax basis differences on property and equipment	<u>(80,720)</u>	<u>(55,176)</u>
Total deferred tax liabilities	<u>(80,720)</u>	<u>(55,176)</u>
Net deferred tax asset	\$ 15,592	<u>17,176</u>

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.PK
OTC Bulletin Board

Stock Transfer Agent

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Golden, CO 80401
T - 1-303-262-0678
www.computershare.com

News and Press Information

Please visit our website at
www.pdrx.com

Independent Accountants

Grant Thornton
Oklahoma City, OK