

November 14, 2012



## **ProPhase Labs Reports Financial Results for the Three and Nine Months Ended September 30, 2012**

DOYLESTOWN, PA -- (Marketwire) -- 11/14/12 -- *ProPhase Labs* (NASDAQ: PRPH) ([www.ProPhaseLabs.com](http://www.ProPhaseLabs.com)) today reported net sales of \$5.4 million and \$13.3 million for the three month and nine month periods ended September 30, 2012, compared to net sales of \$5.1 million and \$10.0 million for the three month and nine month periods ended September 30, 2011.

The Company realized net income for the three months ended September 30, 2012, of \$1.1 million, or \$0.07 per share, compared to net income of \$1.1 million, or \$0.07 per share, for the three months ended September 30, 2011.

The Company incurred a net loss for the nine months ended September 30, 2012, of \$1.5 million, or (\$0.10) per share, compared to a net loss of \$877,000, or (\$0.06) per share, for the nine months ended September 30, 2011.

Results for the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011 principally reflect the net effect of (i) an increase in net sales of \$3.3 million, offset by (ii) an increase in sales and marketing expense of \$1.7 million, (iii) an increase of \$610,000 in administration costs and (iv) an increase in research and development costs of \$461,000 primarily attributable to the successful development of our new Cold-EEZE® Daytime/Nighttime QuickMelts® and research costs related to our Phusion Joint Venture.

The revenue growth we realized for the first nine months of fiscal 2012, as compared to the first nine months of 2011, was in part attributable to the success of our marketing efforts in late fiscal 2011 and early 2012. Our marketing strategies led to increased consumer purchases in late fiscal 2011, as a consequence of which, our retailers placed larger stock replenishment orders in the first quarter of 2012 to maintain their inventory levels which were depleted in late fiscal 2011. In addition, the timing, stocking and ultimate level of demand of retailer purchases of our OTC cold remedy products are affected by the change in the timing and the comparative severity of the respective cold season as well as the effects of the timing and scope of our marketing and promotional efforts to increase consumer awareness and to influence purchaser decisions.

Ted Karkus, ProPhase Labs' Chairman and CEO, stated, "In fiscal 2011, our net sales for the year grew by approximately 20% versus the prior year. For the first 9 months of 2012 our net sales have grown by more than 30% year over year. While our growth is likely to fluctuate from quarter to quarter due to factors beyond our control, including but not limited to the severity of the cold and flu season, we are clearly on track to report our second straight year of double digit net sales growth. It is noteworthy that our team has

accomplished these results during a two year period in which the incidence of upper respiratory illness declined and sales of cough/cold products declined for many of our direct competitors.

"Of course, we still have to wait and see how our loyal consumers of Cold-EEZE® lozenges and potential new Cold-EEZE® consumers respond to our new products and marketing campaign. However, if the initial success in introducing our new products to our retail customers is any indication of future results, we can all look forward to continued success."

Mr. Karkus concluded: "We are executing our core branding strategy: we have rebuilt and are enhancing our distribution platform; we have rebuilt and are expanding our flagship Cold-EEZE® brand; and we are leveraging these successes with new products and effective marketing strategies. We continue to believe that the long term strategy we are following is the right one for our loyal long term shareholders."

### *About ProPhase Labs*

ProPhase Labs is a diversified natural health medical science company. It is a leading marketer of the Cold-EEZE® Cold Remedy brand as well as other cold relief products. Cold-EEZE® zinc gluconate lozenges are clinically proven to significantly reduce the severity and duration of the common cold. Cold-EEZE® customers include leading national retailers, chain food, drug and mass merchandise stores, wholesalers and distributors, as well as independent pharmacies. ProPhase Labs has several wholly owned subsidiaries including a manufacturing unit, which consists of an FDA registered facility to manufacture Cold-EEZE® lozenges and fulfill other contract manufacturing opportunities. ProPhase also owns 50% of Phusion Laboratories, LLC ("Phusion"). Phusion licenses a revolutionary proprietary technology that has the potential to improve the delivery and/or efficacy of many active ingredients or compounds. Phusion will formulate and test products to exploit market opportunities within ProPhase's robust over-the-counter distribution channels. For more information visit us at [www.ProPhaseLabs.com](http://www.ProPhaseLabs.com).

ProPhase Labs, Inc. and Subsidiaries  
Condensed Consolidated Statements of Operations  
(in thousands, except per share amounts)  
(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Net sales	\$ 5,415	\$ 5,083	\$ 13,328	\$ 9,992
Cost of sales	2,016	1,487	4,763	3,508
Gross profit	3,399	3,596	8,565	6,484

Operating  
expenses:  
Sales and

marketing	1,035	1,158	5,032	3,376
Administrative	1,126	1,134	4,027	3,417
Research and development	165	198	1,055	594
	<u>2,326</u>	<u>2,490</u>	<u>10,114</u>	<u>7,387</u>
Income (loss) from operations	1,073	1,106	(1,549)	(903)
Interest and other income	1	4	6	26
Income (loss) before income taxes	1,074	1,110	(1,543)	(877)
Income tax (benefit)	-	-	-	-
Net Income (loss)	<u>\$ 1,074</u>	<u>\$ 1,110</u>	<u>\$ (1,543)</u>	<u>\$ (877)</u>
Basic income (loss) per share:				
Net income (loss)	<u>\$ 0.07</u>	<u>\$ 0.07</u>	<u>\$ (0.10)</u>	<u>\$ (0.06)</u>
Diluted income (loss) per share:				
Net income (loss)	<u>\$ 0.07</u>	<u>\$ 0.07</u>	<u>\$ (0.10)</u>	<u>\$ (0.06)</u>
Weighted average common shares outstanding:				
Basic	<u>14,836</u>	<u>15,113</u>	<u>14,804</u>	<u>14,901</u>
Diluted	<u>14,981</u>	<u>15,113</u>	<u>14,804</u>	<u>14,901</u>

ProPhase Labs, Inc. and Subsidiaries  
Condensed Consolidated Balance Sheet Data  
(in thousands)  
(unaudited)

	September 30, 2012	December 31, 2011
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Cash and cash equivalents	\$ 1,815	\$ 5,541

Accounts receivable	\$	4,172	\$	3,219
Inventory	\$	3,414	\$	2,688
Total current assets	\$	10,505	\$	13,195
Total assets	\$	16,534	\$	19,079
Total current liabilities	\$	6,643	\$	7,853
Total stockholders' equity	\$	9,891	\$	11,226

Press Only Contact  
 Jenny Miranda  
 5W Public Relations  
 Tel: (212) 584-4295  
[jmiranda@5wpr.com](mailto:jmiranda@5wpr.com)

Investor Contact  
 Ted Karkus  
 Chairman and CEO  
 ProPhase Labs, Inc.  
 (215) 345-0919 x 0

**Source: ProPhase Labs**