

**With a New Management Team, Improved Cold-EEZE® Packaging and Flavors,
and a New Oral Spray Delivery System Ready for Market,
ProPhase Labs, Inc. is Set for a Turnaround**

**Healthcare
Drug Delivery
(PRPH-NASDAQ)**

ProPhase Labs, Inc.

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**Ted Karkus
Chairman and CEO**

BIO: TED KARKUS has been the Chairman of the Board and the Chief Executive Officer of the Company since June 2009. Mr. Karkus was formerly the managing member of Forrester Financial, LLC, a management consulting firm founded by Mr. Karkus in 2001. Forrester provided a wide range of services to emerging-growth companies, including the structuring and raising of working capital as well as assisting management in developing operational, marketing and financial strategies. Mr. Karkus was the primary investor in all portfolio company financings and had extensive relationships with invest-

ment bankers, the media and a network of institutional investors and high net worth individuals. Mr. Karkus was instrumental in assisting the turn around of ID Biomedical, an influenza vaccine manufacturer, which in 2005 was sold to GalaxoSmithKline for over \$1.4 billion. He provided financing, investment bankers, substantial sponsorship and successfully advocated for the restructuring of management. Mr. Karkus has 25 years of experience in securities and capital markets including 2 years with Fahnstock & Co. Inc., a full-service brokerage firm, where he was Senior Vice President, Director of Institutional Equities and 4 years at S.G. Warburg, an investment bank, where he was an institutional equity salesman and developed a large network of institutional investors. Mr. Karkus graduated with an MBA from Columbia University Graduate School of Business in 1984 where he received Beta Gamma Sigma honors. He graduated Magna Cum Laude from Tufts University in 1981.

Company Profile:

ProPhase Labs, Inc. engages in the research, development, manufacture, distribution, marketing, and sale of over-the-counter (OTC) cold remedy and consumer products, nature based health products, and other supplements and cosmeceuticals in the United States.

**Interview conducted by:
Lynn Fosse, Senior Editor**

CEOCFO: Mr. Karkus, ProPhase is about proven remedies and science for life, what does ProPhase actually do?

Mr. Karkus: ProPhase Labs is a big believer in distributing and selling products to consumers that are both safe and effective; products that actually work. Our flagship brand Cold-EEZE® cold remedy has been clinically proven in several studies to shorten your cold.

CEOCFO: Are you developing products or are you acquiring products?

Mr. Karkus: That is a great question. We actually do both. We have a new head of R&D that I am excited to have onboard. One of his key responsibilities is to develop new products to leverage our distribution platform. At the same time, we are always looking for opportunities to acquire products which we think we can do a better job of marketing and distributing. What we are not interested in doing, however, is acquiring a brand because we think we can save one or two percentage points on margins versus our competitors.

CEOCFO: Would you tell us about your Cold-EEZE product?

Mr. Karkus: In 1992, the Dartmouth College conducted a study on zinc gluconate lozenges and demonstrated that they shorten the duration of the common cold. In 1996, the Cleveland Clinic conducted a study to prove that our zinc gluconate lozenges did not work at shortening the cold. However, they used actual Cold-EEZE lozenges for the study and were surprised to find not only that the product worked, but it worked incredibly well. The researchers found that Cold-EEZE achieved highly statistically significant results. The average cold was shortened by 42%, confirming the results of the earlier Dartmouth College

study. These results received an enormous amount of attention and press and really put Cold-EEZE on the map. I provided the original working capital in 1996 that was used to ramp up production of Cold-EEZE for this nationwide roll out.

CEO CFO: How does Cold-EEZE accomplish shortening the duration of a cold?

Mr. Karkus: Cold-EEZE is a proprietary formula of zinc gluconate. The Cold-EEZE lozenge dissolves slowly in your mouth, releasing zinc ions over and over again. As for the scientific theory, these zinc ions are absorbed by mucous membranes and attach to receptors in the back of your mouth. The zinc ions block the cold virus from attaching to these receptors and prevent the cold virus from replicating.

CEO CFO: How is Cold-EEZE being distributed?

Mr. Karkus: Cold-EEZE is distributed in over 40,000 stores around the country in the traditional FDM (Food, Drug, and Mass). Therefore, you can find our products virtually everywhere. I became CEO in 2009 and my goal over the last two years has been to improve the relationships with our major retailers; also to improve our packaging and to improve the flavors of Cold-EEZE.

We were able to significantly improve the flavor using natural flavor technologies that did not exist 15 years ago. This past cold season, we also introduced a new mint frost flavor that is my favorite. For the upcoming cough/cold season, we will be introducing a new delivery system for our Cold-EEZE in the form of an oral spray.

CEO CFO: Do most people know about Cold-EEZE; how do you reach potential customers?

Mr. Karkus: The biggest challenge we have as new management is that not enough consumers understand that Cold-EEZE is real medicine, and don't understand how or why it works.

We have a product that actually shortens your cold. Our challenge is to educate more people. The vast majority of consumers who have tried Cold-EEZE love it and become life-long believers. Advertising is the key to answering this challenge. For the upcoming cough/cold season we plan to spend heavily, investing in the brand in the form of TV, radio and social media to really educate consumers about Cold-EEZE.

CEO CFO: What is the regulatory environment around Cold-EEZE?

Mr. Karkus: The FDA and the FTC regulate OTC products. In our particular case, Cold-EEZE is considered a

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homeopathic product. The Homeopathic Pharmacopeia of the United States (HPUS) lists our active ingredient as homeopathic, and that allows us to put our product on the shelf. We can make the claim "Clinically Proven to Shorten Your Cold" because of the clinical studies and literature supporting these claims.

CEO CFO: Are there any potential or possible drug interactions?

Mr. Karkus: Actually, the beauty of Cold-EEZE is that it has safety and efficacy without the side effects and dangers often associated with other over-the-counter medicines. Cold-EEZE is a very well tolerated product with no serious drug interactions.

CEO CFO: Has the medical community paid attention?

Mr. Karkus: The best way to answer that question is to say that those in the medical community who have tried Cold-EEZE have become believers in Cold-EEZE as well. I receive emails and comments all the time from consumers who have said that their doctors and pharmacists have recommended Cold-EEZE to them. Our job is to educate more doctors and pharmacists regarding the benefits of Cold-EEZE. We are also the #1 pharmacist recommended zinc cold remedy.

CEO CFO: What is the competitive landscape?

Mr. Karkus: Here is the way I view our category. You have the billions of dollars worth of symptom relievers, which include aspirin, acetaminophen (Tylenol), and Ibuprofen (Advil.) You also have your decongestants including Robitussin, Nyquil, etc. These billions of dollars worth of symptom relievers help you to feel better for a number of hours, until the medicine wears off and then you are just as sick as when you started. Then there are dietary supplements, such as vitamins. These are products that theoretically boost your immune system which may prevent you from getting sick. Then you have a category of cold remedies including Cold-EEZE. Once you feel the symptoms of a cold coming on, cold remedies are products that immediately go to work to treat and shorten your cold. Cold-EEZE is a cold remedy that you can actually use with the immune system boosters as well as with the other symptom relievers. Therefore, Cold-EEZE is a product that can be used with these other "competitors."

CEO CFO: Why is Cold-EEZE better than the other cold remedy products that exist?

Mr. Karkus: The key is in our proprietary formula of zinc gluconate. There are other active and inactive ingredients that if combined with the zinc

may bind to the zinc (the term is chelate). If these other ingredients bind with or chelate the zinc, the zinc ions are not released. The key to Cold-EEZE is the specific formula that is used which guarantees that these zinc ions will be released and go to work. That is why our product was proven in double-blind placebo controlled clinical studies to work. Other cold remedies do not make the claim "clinically proven" to shorten your cold.

CEO CFO: ProPhase will be offering a spray; why would people prefer spray to a lozenge?

Mr. Karkus: Some people do not like to dissolve lozenges in their mouth throughout the day. Also, it may not be convenient to carry around a pocket full of lozenges. An oral spray is another delivery mechanism for delivering our zinc gluconate proprietary formula. Two sprays from our oral spray will provide the equivalent amount of our proprietary formula as one lozenge. You can walk around with our oral spray bottle, which will contain ninety sprays and is the equivalent of forty-five lozenges. It is going to be a very convenient product that can be carried in a pocketbook, stored in a glove compartment, etc.

CEO CFO: Is it possible to use Cold-EEZE proactively?

Mr. Karkus: Interestingly, the Heritage School in Utah conducted a couple of studies in 2002 and 2003, where they gave their children aged twelve to eighteen years old, one lozenge every day. They found that the incidence of colds dropped dramatically, the use of antibiotics dropped dramatically and the associated healthcare costs dropped dramatically. This would indicate the potential to use Cold-EEZE as a prophylactic. However, the studies were not what is known as double-blind placebo controlled studies. While the studies were interesting, they do not allow us to advertise and recommend the use of Cold-EEZE as a prophylactic, even though many people do use it that way. However, as I mentioned, we do have a number of other double blind placebo controlled studies that support the claim to use Cold-EEZE to shorten your cold.

CEO CFO: Do you have products specifically for children?

Mr. Karkus: Yes, we have a line of kids products called Kids-EEZE®. We have three products in the Kids-EEZE line for allergies, cough/cold, and for chest relief. These come in the form of a soft chew. They are convenient, taste great with no mess and are very reasonably priced.

CEO CFO: Where do you manufacture?

Mr. Karkus: Cold-EEZE is manufactured in our state of the art manufacturing facility in Lebanon, Pennsylvania. Our Kids-EEZE products are outsourced and manufactured by a third party in other parts of the United States.

CEO CFO: What is the plan for Cold-EEZE and how do you work with stores?

Mr. Karkus: The longer-term plan started with the turnaround of the company nearly two years ago. We significantly cut overhead in our headquarters. Our senior management team, led by me, personally visited with every major retailer significantly improving our relationships with them. We also improved the packaging and taste of our Cold-EEZE lozenges and replaced every consultant and vendor with whom we do business. Those were the first steps that are now successfully in place. We now have a solid foundation and a very strong distribution platform for growth. The goal is to leverage this platform by developing other delivery forms of our Cold-EEZE formulation, including our oral spray which will be introduced later this year. Beyond leveraging our flagship Cold-EEZE brand, the goal down the road will be to introduce other products to be sold through our distribution system.

CEO CFO: How do you get space in stores?

Mr. Karkus: It is important to have good relationships with the retailers who determine what new products will be displayed on their shelves. We view them as our partners, and it is important to view them as such. After all, it is the retailers who determine

shelf-positioning; how many SKUs, how many flavors are on the shelves, etc. The trick is to sell a product that consumers want that will have high turnover creating solid profitability for the retailers. Without the high turnover, the product will be removed from these shelves very quickly. It is highly competitive getting your product on the shelves and it is just as competitive and difficult keeping your product on these shelves. There is a score card that measures your product's performance on an almost daily basis and it is critically important to keep the demand up for your products. This includes not only advertising, but also working with your retailers with all types of in-store promotions.

CEO CFO: What is the financial picture like at ProPhase today?

Mr. Karkus: We have virtually no debt, a strong balance sheet with plenty of cash, and have significantly reduced overhead. Therefore, we are a solid company financially. As I said, we are looking to grow revenues, first by growing the Cold-EEZE brand and then by introducing new products. The short term goal is to grow revenues while the longer term goal is to grow both revenues and profits. With our decreased overhead, longer term, revenue growth should drive profitability.

CEO CFO: Is the investment community paying attention to ProPhase?

Mr. Karkus: We have a very small market cap by public company standards. We had declining sales and increasing losses from 2005 - 2010; so frankly, the investment community has not paid attention at all. However, over the next couple of years if we achieve our goals of growing revenues and returning to profitability, interest from the investment community will clearly return.

CEO CFO: What has surprised you most since you have taken over and worked on the turnaround and increase?

Mr. Karkus: What surprised me most is how much I love being a CEO and how much I love working hard. It has been truly rewarding working closely with all of the employees of our com-

pany as well as all of our consultants and vendors in turning around our company.

CEOCFO: In closing, why should po-

tential investors pay attention to ProPhase today?

Mr. Karkus: Very simply, we are a turnaround story. We have reduced overhead, and are growing revenues

for the first time in five years. Our management team and I have a vision for the future which if properly executed will increase the value of our company.



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