



June 5, 2015

## A Letter from the CEO

Dear Stockholders,

Our (unaudited) first quarter financial results are now known and it is time to bring you up-to-date. We delayed this update in order to obtain permission from Evine (formerly ShopHQ/ShopNBC) to give you some exciting news. On June 10<sup>th</sup> and 11<sup>th</sup> Apothederm® will be presented on-air as part of Evine's Beauty Day event. We are pleased with the progress we are making with the brand and look forward to being able to tell the story of our SmartPeptides® technology to a broader audience.

AST (our stock transfer agent) has advised us that some of our stockholders did not submit their letter of transmittal when we performed our reverse split in 2012. Beginning as early as the end of this year (each state has its own schedule), the state where you resided at the time of the reverse split will declare the stock as abandoned and take it. There are processes to reclaim your stock, but I strongly suggest that you submit your letter of transmittal to avoid the issue. AST has volunteered to assist anyone who needs help. You can either call AST or send email to request a Letter of Transmittal for the unexchanged shares:

<b>Shareholder Services:</b>	(800) 937-5449
(AST's Call Center is open Monday through Friday, 8am to 8pm ET.	(718) 921-8124 or <i>Email directly at <a href="mailto:info@amstock.com">info@amstock.com</a></i>

For those of you who read every update, you have noticed that certain explanations are repeated in every letter. While the explanations are necessary for first-time or occasional readers, you regular readers find them unnecessary and repetitive. Beginning with this letter, I have addressed this issue by replacing explanations with an explanatory footnote.<sup>(1)</sup>

### 1. Highlights of activities since my February letter:

Moss-Adams has completed our annual audit for 2014. We are pleased with the results and plan to mail a copy of the audit with our proxy later this year as we have in the past.

We have hired another scientist, Dr. Alissar Nehme, to our R&D team to expand our innovation capabilities (more details in the R&D section below).

Apothederm® products will be featured in Evine's Beauty Day event in June. Brand Ambassador for Apothederm will be professional dancer Karina Smirnoff (Dancing with the Stars) and two product kits will be presented.

Both of our active ingredient distribution partners had impressive exhibits at two major industry tradeshows – Incosmetic Barcelona and the New York Society for Cosmetic Chemists Supplier Days events.

## 2. The Q1 2015 unaudited financial results:

The total revenue for the first quarter of 2015 was \$289,000 compared to \$374,000 for the same period in 2014. Gross profits for the first quarter of 2015 were \$277,000 compared to \$322,000 for the same period in 2014. Operating expenses for the first quarter of 2015 were \$791,000 compared to \$850,000 for the first quarter of 2014. As a result, our operating losses for the first quarter of 2015 were \$546,000 compared to operating losses of \$528,000 in the first quarter of 2014. The company's non-cash stock expense fluctuates substantially from quarter to quarter. As a result, the company's management and board of directors exclude this expense from our operating expenses and from our operating losses during our internal analysis of the company's performance. I have added those two numbers to the table below.

Here are five significant items along with the results from one year earlier (000):

<i>Item</i>	<i>1Q2015</i>	<i>1Q2014</i>
<i>Revenue</i>	<i>\$289</i>	<i>\$374</i>
<i>Gross Profits</i>	<i>\$277</i>	<i>\$322</i>
<i>Operating Expenses</i>	<i>\$791</i>	<i>\$850</i>
<i>Excluding Stock Expense</i>	<i>\$687</i>	<i>\$729</i>
<i>Operating profit (loss)</i>	<i>(\$546)</i>	<i>(\$528)</i>
<i>Excluding Stock Expense</i>	<i>(\$442)</i>	<i>(\$421)</i>
<i>Cash + A/R – A/P</i>	<i>\$1,159</i>	

Revenue and gross profits were negatively impacted by weather and by delays in two critical opportunities. Operating expenses were negatively impacted by both ongoing and one-time expenses related to increasing the size of our R&D department.

## 3. Strategic Evaluation and Commentary:

The strategic evaluation of the company falls into two general categories, which unlike quarterly results do not vary dramatically quarter-to-quarter:

### Revenue<sup>(2)</sup>

The best measure of our financial progress is to look at our gross profits and our operating losses (ignoring stock expense) over the past 12 months as compared the previous 12 months. Our gross profits and operating losses (excluding non-cash stock expense) respectively for the past 12 months are \$1.445M and \$1.233M as compared to \$1.381M and \$1.348M for the previous 12 months.

### Company R&D

The company's research and development efforts remain focused on generating peptides that have near term commercialization potential as well as longer term pipeline opportunities. During the quarter, we continued to grow our intellectual property portfolio. We currently own over 130 issued patents with many more pending.

In March, we added Alissar Nehme, Ph.D., to our R&D team as Director of R&D. Most recently, Dr. Nehme spent 14 years at Allergan where she was principal research scientist in company's Biological Sciences Department. Dr. Nehme has comprehensive technical expertise in discovery research and development in anti-cancer, retinoids, inflammation, cytokines, glucocorticoids, ocular disease drug treatments, cancer biology, cell biology, molecular biology, assay development, mammalian cell culture, biochemistry, immunoassays, in vivo research techniques, new small molecule and biologic therapeutics development, project leadership, and scientific writing. In addition, she has a track record in generating intellectual property assets with four patents/patent applications, 18 publications and 14 presentations to her credit. Her education includes University of Paul Sabatier, Toulouse, France, Ph.D., Cell Biology & Cancer Pharmacology, 1995 and University of Nice, Nice, France, B.S., Biochemistry, 1990. We are delighted to have Dr. Nehme join Dr. Lijuan Zhang in our lab.

#### 4. Conclusion

We look forward to keeping you informed of our progress. As I stated in the introduction, Moss Adams has completed our 2014 audit. We will forward a copy of the audit along with our proxy later this year.

The demand for high quality peptides from our partners is continuing to increase and we are continuing to expand our R&D network. Let me close by saying that we remain optimistic that we will see year-over-year gross product growth while exercising financial discipline in the management of our expenses.

Sincerely,



**R. Stephen Beatty**  
Chief Executive Officer and Chairman of the Board

#### Footnote (1)

The purpose of these quarterly letters is to briefly discuss our results along with selected events that have occurred since the last letter. For ease of comparison, I use the same format each quarter which is less detailed than my annual letter that is published after Moss Adams LLP completes our annual audit in the second quarter of the following year. This letter is divided into four parts:

- 1) Highlights of activities since my last letter;
- 2) Our Q1 2015 unaudited financial results;
- 3) Strategic evaluation and commentary;
- 4) Conclusion.

#### Footnote (2)

Our most important revenues are generated from our high margin licensing agreements and consumer product sales. Our licensing revenues are royalty-based and, therefore, carry no cost of goods. While royalty payments appear to be "pure profit," we must measure this royalty income against the costs required to support our ongoing patent obligations and the development/production costs required to support our licensing partners and generate new product opportunities.

Because we have more control over our high-margin branded product sales, we are placing a great deal of emphasis on developing this business. Our Apothederm® line of products continues to expand and we encourage you to visit [www.Apothederm.com](http://www.Apothederm.com) for more information.



Evonik, the creative industrial group from Germany, is one of the world leaders in specialty chemicals. Profitable growth and a sustained increase in the value of the company form the heart of Evonik's corporate strategy. Its activities focus on the key megatrends health, nutrition, resource efficiency and globalization. Evonik benefits specifically from its innovative prowess and integrated technology platforms.

Evonik is active in over 100 countries around the world. In fiscal 2013 more than 33,500 employees generated sales of around €12.9 billion and an operating profit (adjusted EBITDA) of about €2.0 billion.



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