



August 18, 2014

A Letter from the CEO

Dear Stockholders,

Our (unaudited) second quarter financial results are now known and it is time to bring you up-to-date. 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 2014 unaudited financial results
- 3) Strategic evaluation and commentary
- 4) Updates.

1. Highlights of activities since my May letter:

On July 1, 2014, we had our annual meeting where stockholders voted to re-elect Robin L. Carmichael, Randall L-W. Caudill, Richard M. Cohen, and Jeffrey A. Miller as members of the board of directors to serve until the 2015 annual meeting of stockholders or until such directors' successors are elected and qualified; and also ratified the appointment of Moss Adams LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2014.

As of the end of July, we have successfully launched thirteen individual Apothederm[®] products and several product combination kits on ShopHQ.com. We are working with the buyers to secure an on-air segment on the ShopHQ channel. In addition, Apothederm will be a featured promotion on LivingSocial later in August. We continue market Apothederm direct-to-consumer through our own ecommerce site as well as to spas, physicians, specialty retailers and internet health and beauty ecommerce sites.

In August, we are launching two new products to the Apothederm family that are complementary to our existing line. Apothederm Body Prep Scrub is a perfect companion product to our popular stretch mark cream. Apothederm Facial Enzyme Exfoliant helps remove dead, skin-dulling cells to improve skin radiance and is also a must-have product for flaky skin from fading suntans and winter dry skin.

Our active ingredient distribution partners are continuing to aggressively promote our peptides in the personal care and OTC markets.

2. The Q2 2014 unaudited financial results:

The total revenue for the second quarter of 2014 was \$520,000 compared to \$568,000 for the same period in 2013. Gross profits for the second quarter of 2014 were \$438,000 compared to \$429,000 for the same period in 2013. Operating expenses for the second quarter of 2014 were \$746,000 compared to \$762,000 for the second quarter of 2013. The cash flow for the second quarter of 2014 was a loss of \$391,000 compared to a loss of \$390,000 for the second quarter of 2013. As a result, our operating losses for the second quarter of 2014 were \$307,000 compared to operating losses of \$333,000 in the second quarter of 2013.

Here are the same results in a table for ease of comparison:

	2Q 2014	2Q 2013
Revenue	\$520K	\$568K
Gross Profits	\$438K	\$429K
Operating Expenses	\$746K	\$762K
Cash flow (loss)	(\$391K)	(\$390K)
Operating profit (loss)	(\$307K)	(\$333K)

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

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 for more information.

The best measure of our financial progress is to look at our gross profits and our operating losses over the past 12 months as compared the previous 12 months. Our gross profits and operating losses respectively for the past 12 months are \$1.39M and \$1.64M as compared to \$1.43M and \$2.17M 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 110 issued patents with many more pending.

4. Updates

This section of the letter is where I discuss various timely updates that help give our investors additional insight into our company. Since some of the topics serve as reminders, they are repeated in each letter:

I am continuing to adjust the content of the letter to better provide the information that I believe you want to see. Notice that I added a chart in section two for ease of comparison.

I have also added the cash flow for the quarter along with the cash flow for the same period one year earlier. This allows you to compare our performance without non-cash expenses that can be quite large.

Our decision to suspend our SEC filings and to delay our annual audit by one quarter saves us hundreds of thousands of dollars each year. One result of this decision is that we show up on some computerized reports as not having disclosed certain financial data. Our annual audit is performed by one of the largest and most distinguished audit firms in the United States, Moss Adams LLP, and is published on our website.

Let me close by saying that over the last 12 months we reduced our losses by approximately 24% compared to the previous 12 month period; however, our results this quarter are not as good as we would like. I remain confident that 2014 will be our best performance since we transitioned from a development company to a commercialization company in 2007. I also believe that we will see substantial gross product growth in the near future without corresponding growth in operating expenses.

Sincerely,



R. Stephen Beatty
President and Chief Executive Officer



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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