



August 22, 2016

## 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. Quarterly revenues can fluctuate substantially and might not be repeatable; however, we are pleased to advise you our Q2 operating profits/losses (excluding stock expense) were positive for the third quarter in a row.

We sent our annual letter to each stockholder with our proxy. For your convenience, we have also posted it to the investor section of our website.

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. I address this issue by replacing explanations with an explanatory footnote.<sup>(1)</sup> In addition, I have moved a recommendation by AST, our stock transfer agent, to a footnote.<sup>(2)</sup>

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

Both of our peptide ingredient distribution partners continue to actively promote Helix Biomedix peptides into the personal care and dermocosmetic marketplace.

Our R&D focus continues to be to support pipeline innovation for our licensees and to cost-effectively broaden our efforts in the dermatology drug development area.

The Apothederm® skin care line saw a new addition to the offering with the launch of Apothederm Firming Neck Cream. <http://apothederm.com/shop-products/anti-aging/firming-neck-cream/>

### 2. The Q2 2016 unaudited financial results:

The total revenue for the second quarter of 2016 was \$789,000 compared to \$568,000 for the same period in 2015. Gross profits for the second quarter of 2016 were \$718,000 compared to \$442,000 for the same period in 2015. Operating expenses for the second quarter of 2016 were \$779,000 compared to \$795,000 for the second quarter of 2015. As a result, our operating losses for the second quarter of 2016 were \$61,000 compared to operating losses of \$353,000 in the second quarter of 2015. The company's non-cash stock expense fluctuates substantially from quarter to quarter, therefore, 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):

<b>Item</b>	<b>2Q2016</b>	<b>2Q2015</b>
Revenue	\$789	\$568
Gross Profits	\$718	\$442
Operating Expenses	\$779	\$795
<i>Excluding Stock Expense</i>	\$671	\$709
Operating profit (loss)	(\$061)	(\$353)
<i>Excluding Stock Expense</i>	\$047	(\$267)
Cash + A/R – A/P	\$2,665	\$984

### 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>(3)</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 income/(loss) (excluding non-cash stock expense) respectively for the past 12 months are \$2.979M and \$191K as compared to \$1.458M and (\$1,215) 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 year, we continued to grow our intellectual property portfolio.

### 4. Conclusion

Our second quarter (unaudited) results are very encouraging. As stated earlier, our Q2 operating profits/losses (excluding stock expense) were cash positive giving us three consecutive quarters of forward momentum. Our challenge for the remainder of 2016 is to continue our path towards becoming profitable on an annualized basis.

I look forward to reporting our continued progress in the December letter.

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 unaudited quarterly financial results;
- 3) Strategic evaluation and commentary;

4) Conclusion.

Footnote (2)

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> (AST's Call Center is open Monday through Friday, 8am to 8pm ET.	(800) 937-5449 (718) 921-8124 or Email directly at <a href="mailto:info@amstock.com">info@amstock.com</a>
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Footnote (3)

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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