



December 18, 2015

A Letter from the CEO

Dear Stockholders,

Our (unaudited) third quarter financial results are now known and it is time to bring you up-to-date. While quarterly revenues can fluctuate substantially and might not be repeatable, we are pleased to advise you our Q3 revenues and gross profits were the best since we began our commercialization effort in 2007 and our losses, excluding non-cash stock expense, were the lowest since we began our commercialization effort. The drivers of these results were increases in licensing fees and bulk peptide sales.

In addition to our improvement in revenues, gross profits and losses, we completed a round of funding in early December for over \$1M. The details of the funding will be reflected in our next letter.

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:

| | |
|---|--|
| Shareholder Services: (AST's Call Center is open Monday through Friday, 8am to 8pm ET. | (800) 937-5449 (718) 921-8124 or <i>Email directly at info@amstock.com</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. I address this issue by replacing explanations with an explanatory footnote.⁽¹⁾

1. Highlights of activities since my September letter:

Our peptide ingredient distribution partners had impressive sales in the 3rd quarter. They continue to actively promote our peptides into the personal care and dermo-cosmetic marketplace.

In October, we exhibited at ISPA, a major industry tradeshow, where Apothederm products were well received. We are launching several gift sets in time for the holiday season.

2. The Q3 2015 unaudited financial results:

The total revenue for the third quarter of 2015 was \$774,000 compared to \$554,000 for the same period in 2014. Gross profits for the third quarter of 2015 were \$567,000 compared to \$419,000 for the same period in 2014. Operating expenses for the third quarter of 2015 were \$785,000 compared to \$766,000 for the third quarter of 2014. As a result, our operating losses for the third quarter of 2015 were \$219,000⁽²⁾ compared to operating losses of \$347,000 in the third 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>3Q2015</i> | <i>3Q2014</i> |
|--|---------------|---------------|
| Revenue | \$774 | \$554 |
| Gross Profits | \$567 | \$419 |
| Operating Expenses | \$785 | \$766 |
| <i>Excluding Stock Expense</i> | \$698 | \$677 |
| Operating profit (loss) ⁽²⁾ | (\$219) | (\$347) |
| <i>Excluding Stock Expense</i> | (\$176) | (\$258) |
| Cash + A/R – A/P | \$927 | \$900 |

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⁽³⁾

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 \$1.607M and \$1.207M as compared to \$1.438M and \$1.364M 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. We currently own over 130 issued patents with many more pending.

4. Conclusion

We look forward to keeping you informed of our progress.

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 Q3 2015 unaudited financial results;
- 3) Strategic evaluation and commentary;
- 4) Conclusion.

Footnote (2)

I have removed two small one-time gains in revenue involving NuGlow because they are not repeatable.

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 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.



DEDICATED TO SUPERIOR QUALITY & CUSTOMER SERVICE

Founded in 1938, Grant Industries is a privately held company involved in the research, development, manufacturing, and marketing of specialty performance chemicals. A leading global provider to the personal care industry, Grant Industries dedicates its business on superior quality and customer service. Operations are conducted out of two main facilities; Grant Industries-USA in Elmwood Park, NJ and Grant Industries-Asia in Beijing, China.



www.apothederm.com