



February 20, 2015

A Letter from the CEO

Dear Stockholders,

Our (unaudited) fourth 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 Q4 2014 unaudited financial results;
- 3) Strategic evaluation and commentary;
- 4) Conclusion.

I have renamed the last section to more accurately reflect its content.

1. Highlights of activities since my November letter:

Earlier in February, in keeping with our succession plan, Robin L. Carmichael was promoted to President and she will continue to serve as our Chief Operating Officer. R. Stephen Beatty was appointed as Chairman of the Board and will continue to serve as Chief Executive Officer. We have worked hard to provide continuity to our leadership in an effort to foster our strategic growth and research program evolution.

We have engaged Moss-Adams for our annual audit which will occur in the late April – early May timeframe.

The Apothederm® products have continued to make progress with home shopping distribution. In addition, we continue market direct-to-consumer through our own ecommerce site and have a strong promotional calendar for our wholesale customers.

Our active ingredient distribution partners are continuing to promote peptides in the personal care and OTC markets and are both slated to attend In-Cosmetics, a major industry tradeshow in April.

In December, we added over \$1M in new investment funds to our balance sheet.

2. The Q4 2014 unaudited financial results:

The total revenue for the fourth quarter of 2014 was \$367,000 compared to \$296,000 for the same period in 2013. Gross profits for the fourth quarter of 2014 were \$321,000 compared to \$259,000 for

the same period in 2013. Operating expenses for the fourth quarter of 2014 were \$729,000 compared to \$746,000 for the fourth quarter of 2013. As a result, our operating losses for the fourth quarter of 2014 were \$408,000 compared to operating losses of \$486,000 in the fourth quarter of 2013. 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>	4Q2014	4Q2013
<i>Revenue</i>	\$367	\$296
<i>Gross Profits</i>	\$321	\$259
<i>Operating Expenses</i>	\$729	\$746
<i> Excluding Stock Expense</i>	\$643	\$731
<i>Operating profit (loss)</i>	(\$408)	(\$486)
<i> Excluding Stock Expense</i>	(\$322)	(\$471)
Cash + A/R – A/P	\$1,689	

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 (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 \$1.50M and \$1.26M as compared to \$1.45M and \$1.87M 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 120 issued

patents with many more pending. Since the last update, we have received additional notifications that new patents are about to issue.

We have added Dr. Waleed Danho as a scientific advisor. Dr. Danho is a distinguished research leader in the area of drug discovery in peptide based drugs, and he has authored and co-authored over 250 scientific articles and 21 patents in the field of peptides. He brings to us an extensive network for collaboration with medical, structural chemists and formulation scientists. Dr. Danho has presented and chaired various sections of the American, European and International Peptide Symposia since 1972 and he is a council member of the American Peptide Society (2011-Present).

4. Conclusion

We look forward to keeping you informed of our progress. Please note that in order to stay on track our planned communications schedule we will also post a letter discussing our unaudited 1Q15 results before Moss Adams completes our 2014 audit.

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 continue to 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



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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