



February 18, 2017

## 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. Quarterly revenues can fluctuate substantially and might not be repeatable. Q4 operations (excluding stock expense) showed a small loss as compared to a gain during the same period in 2015; however, our (unaudited) results for the year were an improvement from the previous year.

As a reminder, due to our audit schedule, we will be sharing our Q1 results for 2017 prior to our end-of year results for 2016. The 2016 results will be shared in the Stockholders letter that is mailed with our proxy. We also plan to post the letter on 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> Please carefully review this information as it relates your stock and any necessary steps you need to take to regarding submission of a letter of transmittal if you have not already done this.

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

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. We recently had a new primary US patent issue entitled "*N-Acyl amino acid derivatives for treating skin conditions such as cellulite*" which adds to our intellectual property portfolio.

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

The Apothederm® line of skin care products has been gearing up for a promotion with New Beauty, a leading aesthetic publication, which will include a sampling program to help increase consumer awareness.

### 2. The Q4 2016 unaudited financial results:

The total revenue for the fourth quarter of 2016 was \$550,000 compared to \$1,084,000 for the same period in 2015. Gross profits for the fourth quarter of 2016 were \$505,000 compared to \$937,000 for the same period in 2015. Operating expenses for the fourth quarter of 2016 were \$614,000 compared to \$709,000 for the fourth quarter of 2015. As a result, our operating losses for the fourth quarter of 2016 were \$109,000 compared to an operating profit of \$228,000 in the fourth quarter of 2015.

Our financial performance for 4Q16 was weaker than our performance for the same period a year earlier. As I stated in the introduction, quarterly results can fluctuate substantially. Some of this fluctuation is a reflection of the timing of new product launches that require higher initial peptide volumes to comprehensively stock retail shelves at roll-out.

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):

<i>Item</i>	<b>4Q2016</b>	<b>4Q2015</b>
<i>Revenue</i>	\$550	\$1,084
<i>Gross Profits</i>	\$505	\$937
<i>Operating Expenses</i>	\$614	\$709
<i>Excluding Stock Expense</i>	\$550	\$655
<i>Operating profit (loss)</i>	(\$109)	\$228
<i>Excluding Stock Expense</i>	(\$045)	\$282
Cash + A/R – A/P	\$2,427	\$2,509

### 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 income (losses) (ignoring stock expense) over the past 12 months as compared the previous 12 months. Our gross profits and operating income (losses) (excluding non-cash stock expense) respectively for the past 12 months are \$2.471M and (\$112K) as compared to \$2.223M and (\$546K) 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. We have continued our discovery work in the areas of anti-inflammatory peptides for psoriasis and anti-glycation peptides.

### 4. Conclusion

We have continued to make progress in 2016. The marketplace demand for innovative technologies continues to grow in the dermocosmetic space as well as for topical treatment of dermatological concerns and we are working to address both these areas. While our quarterly results fluctuate substantially, our annual performance continues to improve and 2016 has been our best year to date.

I look forward to reporting our ongoing progress in the May/June 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 financial results for the quarter;
- 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>
--	---

**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.



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 2015 more than 33,400 employees generated sales of around €13.5 billion and an operating profit (adjusted EBITDA) of about €2.46 billion.



[www.apothederm.com](http://www.apothederm.com)



**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.