



UNITED-GUARDIAN, INC.

Corporate Divisions
GUARDIAN LABORATORIES

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Second Quarter 2016 Report to Stockholders

August 31, 2016

Dear Stockholder:

As expected, our second quarter revenue and earnings were significantly lower than those of last year's second quarter, with net sales down from \$4,124,091 in the second quarter of 2015 to \$2,139,165 this year, and net income declining from \$1,510,511 (\$0.33 per share) in 2015 to \$405,381 (\$0.09 per share) this year. For the six-month period ended June 30th net sales decreased from \$8,496,484 to \$4,401,741, and net income was down from \$2,971,021 (\$0.65 per share) to \$930,472 (\$0.20 per share). These results had been expected based on the situation in China, which I will discuss in detail below and which has depressed our overall sales for the past three quarters.

Those of you who have only recently become stockholders of ours may not be aware of what transpired in China during the past year that significantly impacted the sales of one of our products. For the first eight months of 2015 we had been selling substantial quantities of Lubrajel[®] Oil, one of our best-selling Lubrajel products, to a number of cosmetic companies in China. Those companies were using the product as a component in their face mask products, which have become very popular in China over the past few years. However, as a result of inventory control problems experienced by our marketing partner for China, substantially more inventory was being purchased for sale in China than was needed to supply customers' actual requirements. In addition to that inventory control problem there was also a regulatory issue in China related to one of the ingredients that many companies were using in these face mask products, which was unrelated to Lubrajel Oil but which impacted the sale of some face mask products that contained Lubrajel Oil. There were no regulatory issues with the Lubrajel Oil itself.

As a result of those two factors, our sales of this product for distribution in China ceased in September 2015. We were originally told that the excess inventory would be worked off over the next few months, and that sales were expected to resume by the second quarter of 2016. However, the combination of so much excess inventory to work off, along with the fact that many of the companies that had been marketing the affected products needed to reformulate them in order to comply with Chinese regulations, resulted in the work-off period extending far beyond the original estimate. Based on the information we were given, we had projected earlier this year that our sales for the first three quarters of this year would be significantly lower than the comparable quarters of 2015. As recently as the beginning of August we were informed that purchases of product intended for China were not expected to resume until the end of the third quarter or beginning of the fourth.

I am happy to announce, however, that the resumption of those purchases has just begun, which was much sooner than we had expected. We recently received two large orders for the initial resumption of shipments of product for China. We have also been given projections for shipments through the rest of this year, and we are hopeful that those shipments will continue into next year as well, as more of the face mask products that had been taken off the market are reformulated and go back on the market. This should result in a steady increase in revenue from our personal care product line as the year progresses.

In addition to the very welcome resumption of sales for the Chinese market, we are also experiencing strong sales of our new 30mL bottle of Renacidin[®], our most important pharmaceutical product, which is used to dissolve calcifications in indwelling catheters. The new product is a sterile, single-dose unit that is more

convenient for patients and their caregivers than the 500mL glass bottle that it replaced. Sales of the new product began in April, and it is already bringing in significantly more revenue than the old product. We are hopeful that the steady growth we have seen over the past few months will continue as we continue our efforts to promote the product to the medical community. We had not anticipated that the sales of this product would grow as quickly as they have.

While the change in the situation in China is certainly very welcome news, and the steady increase in sales of Renacidin is very exciting, we are also continuing to work with our marketing partners to develop new products for the cosmetic market. Over the past few years we have focused much of our R&D efforts on developing “natural” forms of Lubrajel products. The most recent product in that line is our new **Lubrajel Marine**, which uses components derived from natural marine sources and has been certified as “natural” by Ecocert, a global certifying organization for “natural” products. The product is ready for marketing, and is going to be promoted by our U.S. marketing partner at “In-Cosmetics North America”, a new trade show taking place in New York in September. A major cosmetic company has already expressed interest in this product, and we are hopeful that we will begin to revenue from this product in the first half of 2017.

In addition to the new Lubrajel Marine we are also working on a “natural” version of our very popular Lubrajel Oil, the product that had been selling so well in China. The new product will have lubricating properties similar to the regular Lubrajel Oil, but will be based on all-natural materials. We are also in the early stages of development on several other projects, including **Lubrajel Terra**, which is based on polysaccharides from soil-grown raw materials, and **Amla Complex**, which is an extract of the Amla fruit, which is high in antioxidants and is believed to improve both skin and hair health. The decision as to where to put our R&D efforts is typically made after consultation with our marketing partners, who give us guidance on which products would be of the most interest to their customers. Which of the new products will find their way to market is still an unknown until the development work, testing, and sample formulations are completed and our marketing partners and their customers have a chance to work with and evaluate the new products.

During the past couple of years it has become clear that Asian competitors for our Lubrajel products are making significant inroads in the marketplace, not only in China but in Europe as well, where the strong dollar and sluggish economies are continuing to make marketing efforts for U.S.-made products more challenging than in previous years. We have lost business to some of these lower-priced competitors, and we are determined to do everything we can to prevent any further losses and regain as much of the lost business as we can. We are working closely with our marketing partners to identify potential new business opportunities, while at the same time being more aggressive with our pricing in order to be more competitive in an increasingly competitive marketplace. We continue to believe that our reputation for selling high quality, premium products will give us an edge in the marketplace against some of the newer products that do not have the reputation for quality that our products have.

We also intend to put some of our R&D efforts into developing lower-cost variations of Lubrajel that will enable us to better compete with some of the lower-price competitors, while avoiding the potential pitfall of cannibalizing sales of our other Lubrajel products. By working closely with our marketing partners we believe that it will be possible to accomplish that.

I would like to thank all of those stockholders of ours who have stayed with us despite the disappointing first half numbers and the corresponding drop in our stock price. I am optimistic that you will not regret your decision to do so. Sales for the first two months of the third quarter having already equaled the sales for our entire second quarter, and we are anticipating that September’s sales will be strong as well. With the resumption of sales into China, and the promising start to sales of our new Renacidin product, we feel that we have turned the corner, and that we will finish the year much stronger than we started it.

Sincerely,

UNITED-GUARDIAN, INC.



Ken Globus
President

**RESULTS FOR THE
SECOND QUARTER ENDED
JUNE 30, 2016 and JUNE 30, 2015**
(CONDENSED)*

STATEMENTS OF INCOME
(UNAUDITED)

	THREE MONTHS ENDED MARCH 31,	
	<u>2016</u>	<u>2015</u>
Net sales	\$ 2,139,165	\$ 4,124,091
Costs and expenses	<u>1,630,890</u>	<u>2,004,474</u>
Income from operations	508,275	2,119,617
Investment income	<u>82,906</u>	<u>72,894</u>
Income before income taxes	591,181	2,192,511
Provision for income taxes	<u>185,800</u>	<u>682,000</u>
Net income	\$ <u>405,381</u>	\$ <u>1,510,511</u>
Earnings per common share (Basic and Diluted)	\$ <u>.09</u>	\$ <u>0.33</u>
Weighted average shares – basic and diluted	<u>4,594,319</u>	<u>4,596,439</u>

BALANCE SHEETS

<u>ASSETS</u>	<u>JUNE 30, 2016</u> (UNAUDITED)	<u>DECEMBER 31, 2015</u> (AUDITED)
Current assets	\$ 14,342,318	\$ 14,517,960
Property, plant and equipment, net	1,129,026	1,096,113
Other assets (net)	<u>66,707</u>	<u>74,118</u>
TOTAL ASSETS	\$ <u>15,538,051</u>	\$ <u>15,688,191</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>	<u>JUNE 30, 2016</u> (UNAUDITED)	<u>DECEMBER 31, 2015</u> (AUDITED)
Current liabilities	\$ 1,241,282	\$ 988,367
Deferred income taxes	211,334	118,010
Stockholders' equity	<u>14,085,435</u>	<u>14,581,814</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ <u>15,538,051</u>	\$ <u>15,688,191</u>

* Detailed financial information can be found at the company's web site at www.u-g.com