



# UNITED-GUARDIAN, INC.

Corporate Divisions  
GUARDIAN LABORATORIES

Corporate Headquarters  
230 MARCUS BLVD.  
HAUPPAUGE, NY 11788

Mailing Address  
P.O. BOX 18050  
HAUPPAUGE, NY 11788

TEL: (631) 273-0900  
FAX: (631) 273-0858  
E-MAIL: [pgc@u-g.com](mailto:pgc@u-g.com)

## **First Quarter 2016 Report to Stockholders**

June 9, 2016

Dear Stockholder:

As I had projected in the annual report to the stockholders in April, the financial results for the first quarter of 2016, while expected, were certainly disappointing, with sales and earnings down compared with the first quarter of 2015. Net sales for the quarter decreased from \$4,372,393 in 2015 to \$2,262,576 in the first quarter of this year. As you would expect, the lower sales resulted in net income decreasing from \$1,460,510 (\$0.32 per share) in the first quarter of 2015 to \$525,091 (\$0.11 per share) for the first quarter of this year.

As I explained in the April letter, the significant drop in sales for both the fourth quarter of 2015 and the first quarter of this year was due primarily to a substantial decrease in sales of one of our Lubrajel® products in China. We first felt the impact of this in the fourth quarter of last year, when we learned of two events that had taken place that had negatively impacted these sales. The first was a Chinese regulatory issue that affected some products that were being marketed in China that contained an ingredient that was not approved for use in cosmetic products in China. Some of these products also contained Lubrajel. Although the regulatory issue had nothing to do with the Lubrajel, it resulted in many of these products having to be pulled from the market so they could be reformulated and relabeled. That process is still continuing, and we are hopeful that as those products gradually come back on the market, sales of Lubrajel will resume.

The other event that affected our sales of Lubrajel in China was the result of our marketing partner for China and its customers overestimating their inventory requirements and ordering much more product from us than they needed to fill orders. This situation continued for a much longer period than it should have before the error was discovered. As a result, a considerable amount of inventory had to be worked off before purchases from us could resume. This is an ongoing process, and the latest forecast we received from our marketing partner indicated that they expected to resume purchases in the third quarter of this year. As a result, we are anticipating that our second quarter, and possibly our third quarter, will be down compared with the comparable quarters in 2015.

On a more positive note, we are now selling our new 30mL single-dose form of Renacidin®, our proprietary urological product that is used to keep indwelling catheters free of calcifications. We began selling the new product around the beginning of April, and we are seeing a gradual increase in revenue as more people learn of, and start to buy, the new product. Since our older 500mL bottle of Renacidin is no longer available, as patients exhaust their supply we expect to see more and more patients switching to the new product, since it is much more convenient to use than the previous larger bottle. We are actively promoting the new product, both in magazine ads and in

emails to physicians, and are looking for other opportunities to promote the product, with a goal of making current users of the product, as well as potential customers who are not currently using Renacidin, aware of the new, easier-to-use product as quickly as possible. Although it will take some time to get the word out, we are confident that revenue from this product will continue to grow as the year progresses.

We are also continuing our research and development work on a number of new products for the global cosmetic market. The furthest along of these is our new **LUBRAJEL MARINE**, which is a new Lubrajel formulation that uses components derived from natural marine sources. The product has already been certified as “natural” by Ecocert, a global organization that certifies products as “natural”. The development work on that product has now been completed, and marketing will be commencing shortly. We believe that there is significant market potential for a product like this, and are excited to finally bring it to market.

Some of the other products that we are working on right now are **LUBRAJEL OIL NATURAL**, which is a new natural form of our original Lubrajel Oil, with similar lubricating properties but based on all-natural components; **LUBRAJEL TERRA**, another extension of the Lubrajel Natural line of products, which is based on polysaccharides from soil-grown raw materials; **GLYCERYL GLYCOLATE**, an anti-aging skincare ingredient; **GUARDIAN ESTER C24P**, a new product designed to be an alternative to silicone in creams and lotions; and **AMLA COMPLEX**, an extract of the Amla fruit, which is high in antioxidants and is believed to improve both skin and hair health. With the assistance of our marketing partners we are focusing our development efforts on the products which we and they feel have the best market potential. These products are in various stages of development, and even after the formulations are finalized additional testing will still be required for claim substantiation and product stability. We are hopeful that during this year one or more of these products will be ready for marketing alongside the new Lubrajel Marine.

The excess inventory situation that occurred in China was certainly very disappointing to us, and we are hopeful that our marketing partner for China has now put in place the appropriate safeguards to prevent this from happening again. While we are confident that our sales in China will resume soon, it has become clear to us that Chinese imitations of our products are making inroads in the marketplace, not only in China but in Europe as well, where the strong dollar and sluggish economies are making marketing efforts for U.S.-made products much more challenging. As a result, in addition to the new products mentioned above, we are also working on the development of some lower-cost formulations of Lubrajel that will enable us to better compete with some of these lower-priced Chinese copies, while at the same time not sacrificing the quality for which our products are known. We believe that by working closely with our marketing partners we will be able to remain competitive in an increasingly competitive marketplace, and are confident that these new research and development efforts, along with the expected growth in sales of Renacidin, will result in improved sales and earnings as the year progresses.

Sincerely,

UNITED-GUARDIAN, INC.



Ken Globus  
President

**RESULTS FOR THE FIRST QUARTER ENDED  
MARCH 31, 2016 and MARCH 31, 2015\***

**STATEMENTS OF INCOME**  
(UNAUDITED)

	<b>THREE MONTHS ENDED MARCH 31,</b>	
	<b><u>2016</u></b>	<b><u>2015</u></b>
Net sales	\$ 2,262,576	\$ 4,372,393
Costs and expenses	<u>1,542,847</u>	<u>2,306,437</u>
<b>Income from operations</b>	<u>719,729</u>	<u>2,065,956</u>
Other income	<u>43,312</u>	<u>53,454</u>
<b>Income before provision for income taxes</b>	763,041	2,119,410
Provision for income taxes	<u>237,950</u>	<u>658,900</u>
<b>Net income</b>	<u>\$ 525,091</u>	<u>\$ 1,460,510</u>
Earnings per common share (Basic and Diluted)	<u>\$ 0.11</u>	<u>\$ 0.32</u>
Weighted average shares – basic and diluted	<u>4,594,319</u>	<u>4,596,439</u>

**BALANCE SHEETS**

<b><u>ASSETS</u></b>	<b><u>MARCH 31, 2016</u></b> (UNAUDITED)	<b><u>DECEMBER 31, 2015</u></b> (AUDITED)
Current assets	\$ 15,939,735	\$ 14,517,960
Property, plant and equipment, net	1,062,653	1,096,113
Other assets (net)	<u>70,413</u>	<u>74,118</u>
<b>TOTAL ASSETS</b>	<u>\$ 17,072,801</u>	<u>\$ 15,688,191</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

	<b><u>MARCH 31, 2016</u></b> (UNAUDITED)	<b><u>DECEMBER 31, 2015</u></b> (AUDITED)
Current liabilities	\$ 1,696,818	\$ 988,367
Deferred income taxes	169,373	118,010
Stockholders' equity	15,206,610	14,581,814
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 17,072,801</u>	<u>\$ 15,688,191</u>

---

\* Detailed financial information can be found at the company's web site at [www.u-g.com](http://www.u-g.com)