



UNITED-GUARDIAN, INC.

Corporate Divisions
GUARDIAN LABORATORIES

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First Quarter 2017 Report to Stockholders

June 5, 2017

Dear Stockholder:

I am pleased to report that sales for the first quarter of 2017 were up 23% over the same period last year, resulting in a 21% increase in net income for the quarter. Sales for the three-month period ended March 31, 2017 were \$2,872,722, up from \$2,330,576 for the same period in 2016. Net income for the quarter was \$634,435 (\$0.14 per share) compared with \$525,091 (\$0.11 per share) for the first quarter of 2016.

The increase in sales and earnings was primarily the result of two changes that occurred since the first quarter of 2016. The first was the resumption of purchases one of our most important products, Lubrajel® Oil, by our largest marketing partner, Ashland Specialty Ingredients (“ASI”), for distribution in China. There had been significant purchases of that product by ASI for sale in China between the fourth quarter of 2014 and the fourth quarter of 2015, at which time ASI’s purchases for China were temporarily suspended due to an overstock situation in China. In previous stockholders letters I have discussed in detail the reasons for that suspension, but essentially the overstock situation was caused by (a) a regulatory issue in China unrelated to our product that impacted the sales of products in which ours was a component; and (b) inaccurate projections from some of our Chinese customers that resulted in ASI purchasing more product than was really needed. As a result, we had virtually no purchases by ASI for distribution in China from the fourth quarter of 2015 until the end of the third quarter of 2016, when purchases resumed, albeit at a lower level than had been the case previously. The resumption by ASI of purchases for distribution in China resulted in a 37% increase in the sales of our personal care products in the first quarter of 2017 compared with the same period in 2016.

The other major contributor to the increase in sales was the introduction in April 2016 of our new single-dose packaging of Renacidin® Irrigation Solution, our most important pharmaceutical product. The new packaging was not yet available in the first quarter of 2016, so the introduction of the new packaging resulted in a 54% increase in our pharmaceutical sales in the first quarter of this year compared to last year’s first quarter. We are gradually seeing an increase in Renacidin sales as more patients and physicians become aware of the new, more convenient, packaging. We are in the process of developing a web site dedicated to this product, which we hope will increase awareness of it. We are also working with a marketing company to develop plans to use social media to further increase patient awareness of the product, which we hope will also lead to increased sales.

There were some offsetting reductions in sales, such as in Europe, where pricing pressures on our cosmetic ingredients continue to be an issue. We also experienced lower sales of some of our medical (non-pharmaceutical) products, but we believe that was due more to the timing of orders rather than any real loss of business. Those reductions in sales were more than offset by the increase in sales of the company’s personal care and pharmaceutical products, which is why the net result was a significant increase in sales and earnings for the quarter.

As far as new product development is concerned, the most exciting new product right now is our new Lubrajel Marine, which is a form of Lubrajel based on components derived from marine vegetation. This is one of the products in our Lubrajel "Natural" line of products, which uses only natural components. The Lubrajel Marine, as well as the original Lubrajel Natural, have both been certified as "natural" by Ecocert, one of the global organizations responsible for certifying natural cosmetic ingredients. We believe that the Ecocert certification will make these products more attractive to potential customers looking to formulate "natural" cosmetic products. The Lubrajel Marine will be marketed globally by ASI, since they worked closely with us in its development. The product had its formal introduction at the In-Cosmetics conference that took place in London in April, and it was very well received. We are hopeful that we will begin to see sales of this product by the end of this year or early 2018. However, like any new cosmetic ingredient, it can take 1-2 years for cosmetic companies to bring new products to market, so it is unlikely that we will see any significant income from this product until next year.

Here are some of the other projects on which we are focusing our R&D efforts right now:

- **Lubrajel Oil Natural:** a natural version of our current Lubrajel Oil, which has been one of our best-selling Lubrajel products for many years. We expect to have the formulation for this product finalized by the end of the second quarter, and hope to begin sampling the product to our distributors early in the third quarter.
- **Lubrajel Oil PF:** since our Lubrajel Oil has been one of our highest demand products, we believe that a preservative-free version would appeal to many formulators who prefer to use their own preservatives in their finished formulations. This will be a companion product to Lubrajel PF (also sold in France as "Norgel"), which is a preservative-free version of our Lubrajel CG that has been on the market for many years. We continue to believe that preservative-free cosmetic ingredients will be a growing market segment, since it makes it easier for cosmetic companies to formulate without concerns about incompatibilities between preservatives.
- **Amla Complex:** a unique product that contains an extract of the Amla fruit (Indian Gooseberry), which is believed to have many health benefits, including improved skin health and healthier hair. The development work on this product has been completed and it is being evaluated by our marketing partners to determine market potential.
- **Lubrajel Terra:** a product consisting of polysaccharides sourced from soil-grown raw materials. This product is still in an early stage of development.

As a result of the improved first quarter financial results, as well as our expectation that our second quarter will be a strong one as well, the Board of Directors, at its meeting on May 17, 2017, declared a cash dividend of \$0.42 per share, which will be paid on June 12, 2017 to all stockholders of record as of the close of business on May 30, 2017. This will be the 22nd consecutive year that the company has paid a dividend, and once again we are very happy to be able to share our success with our stockholders.

With the renewed purchases of product for the Chinese market, as well as encouraging sales of the new single-dose form of Renacidin, we are very pleased with the strong start to the year, and we expect the second quarter to be at least as strong as the first. With the potential for additional sales to be generated over the next few years by Lubrajel Marine and some of the other new products on which we are working, we are optimistic that we will be able to continue to increase sales in the coming years.

Sincerely,

UNITED-GUARDIAN, INC.



Ken Globus
President

**RESULTS FOR THE FIRST QUARTER ENDED
MARCH 31, 2017 and MARCH 31, 2016***

STATEMENTS OF INCOME

(UNAUDITED)

	THREE MONTHS ENDED MARCH 31,	
	<u>2017</u>	<u>2016</u>
Sales:		
Gross sales	\$ 2,872,722	\$ 2,330,576
Sales rebates and allowances	<u>(86,334)</u>	<u>(68,000)</u>
Net Sales	2,786,388	2,262,576
 Costs and expenses:		
Cost of sales	1,264,096	897,725
Operating expenses	463,480	467,556
Research and development	<u>189,729</u>	<u>177,566</u>
Total costs and expenses	<u>1,917,305</u>	<u>1,542,847</u>
Income from operations	869,083	719,729
 Other income:		
Investment income	<u>52,872</u>	<u>43,312</u>
Income before provision for income taxes	921,955	763,041
 Provision for income taxes	<u>287,520</u>	<u>237,950</u>
Net income	\$ <u>634,435</u>	\$ <u>525,091</u>
Earnings per common share (Basic and Diluted)	\$ <u>0.14</u>	\$ <u>0.11</u>

BALANCE SHEETS

<u>ASSETS</u>	<u>MARCH 31, 2017</u>	<u>DECEMBER 31, 2016</u>
	(UNAUDITED)	(AUDITED)
Current assets	\$ 14,979,428	\$ 13,714,172
Property, plant and equipment, net	1,046,054	1,090,591
Other assets (net)	55,588	59,295
Deferred income taxes (net)	<u>---</u>	<u>2,382</u>
TOTAL ASSETS	\$ <u>16,081,070</u>	\$ <u>14,866,440</u>
 <u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
	<u>MARCH 31, 2017</u>	<u>DECEMBER 31, 2016</u>
	(UNAUDITED)	(AUDITED)
Current liabilities	\$ 1,496,857	\$ 1,045,951
Deferred income taxes	42,386	---
Stockholders' equity	<u>14,541,827</u>	<u>13,820,489</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ <u>16,081,070</u>	\$ <u>14,866,440</u>

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