



UNITED-GUARDIAN, INC.

Corporate Divisions
GUARDIAN LABORATORIES

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Second Quarter 2017 Report to Stockholders

September 8, 2017

Dear Stockholder:

As I'm sure many of you are already aware, we had an excellent second quarter, with gross sales up 76% from \$2,215,952 in the second quarter of 2016 to \$3,891,656 in this year's second quarter. Net income for the quarter was up 172% compared with 2016, increasing from \$405,381 (\$0.09 per share) to \$1,104,149 (\$0.24 per share). For the six-month period ended June 30th, gross sales increased by 49% from \$4,546,529 to \$6,764,379, and net income increased by 87% from \$930,472 (\$0.20 per share) to \$1,738,584 (\$0.38 per share).

There were two primary reasons for the increased sales and earnings in the second quarter. The first was the resumption of shipments of one of our Lubrajel® products to China. As you may recall, due to a regulatory issue in China that was unrelated to our product, many finished products that contained Lubrajel had to be taken off the market in China and reformulated to remove an ingredient that had not been approved for use in cosmetic products in China. This problem was exacerbated because of an overstock situation on the part of our marketing partner for China. As a result, from the end of the third quarter of 2015 until the third quarter of 2016 a significant amount of our business in China was suspended while the offending products were reformulated and excess inventory of our product worked off. Shipments of product intended for the Chinese market slowly resumed in the fourth quarter of 2016, and those sales have been steady for the first half of this year. As a result, sales of our personal care products in the second quarter of 2017 increased by 131% compared with last year's second quarter.

In addition to the increase in the sales of our personal care products, we also experienced a significant increase in sales of Renacidin® Irrigation, our most important pharmaceutical product. This increase was primarily the result of sales of our new single-dose 30mL form of the product, which we had introduced in the second quarter of 2016 and which has grown considerably since that time. Sales of Renacidin in the second quarter of this year increased by 40% over the same quarter last year, and by 46% for the first six months of 2017 compared with the comparable six-month period in 2016.

We recently submitted to the FDA proposed pages for a new web site that will be dedicated to Renacidin, which we plan to launch as soon as we receive comments from the FDA. Our goal is to enhance the product's visibility and patient and physician awareness. We believe that there are still many patients and physicians who may not be aware of Renacidin, especially the availability of the new single-dose form of the product. We are optimistic that the new web site will help expand the market for Renacidin.

We are continuing to work closely with our global marketing partners to ensure that we remain as competitive as possible with some Asian companies that are marketing products that are competitive with some of ours. Although it may be necessary at times to reduce our margins in order to retain current customers and/or win new business, we believe that in the long run it will be beneficial for us to do so in order to maintain, and hopefully increase, our market share. We continue to believe that our reputation for manufacturing an extensive range of high quality products still gives us an edge over many competitive products.

Our R&D department is continuing development work on new products for the personal care market, including (a) **Lubrajel Oil PF**, a new preservative-free formulation of our very successful Lubrajel Oil; (b) **Lubrajel Oil Natural**, a new "natural" form of Lubrajel Oil for those customers looking to develop "natural" cosmetic products; (c) a **Natural Preservative** that can replace or enhance other preservatives; (d) **Lubrajel Terra**, a new natural Lubrajel formulation based on polysaccharides sourced from soil-grown raw materials; and (e) **Amla Extract**, a natural product derived from the Indian Gooseberry fruit, which is a known antioxidant and is believed to have many health benefits, including healthier skin and hair. We are continuing to focus our R&D efforts on the growing market for "natural" products.

These products are in various stages of development, with the formulations for Lubrajel Oil Natural and Lubrajel Oil PF having been completed and currently being evaluated by our marketing partners. The formulations for the Lubrajel Terra, the natural preservative, and the Amla Extract are still being finalized. Our new Lubrajel Marine, which is a natural form of Lubrajel derived from marine vegetation, was introduced this past Spring by our largest marketing partner, Ashland Specialty Ingredients. It has been certified as "natural" by Ecocert, one of the global organizations responsible for certifying natural cosmetic ingredients, and has generated a lot of excitement on the part of Ashland's sales people, who feel that it has tremendous potential. Ashland is putting a lot of effort into the marketing of this product, and we are optimistic that one or more of these products will begin to generate revenue for us in the near future.

We are very pleased with the way the year has progressed, and are encouraged by the renewed sales of our personal care products in China as well as the improving sales of the new single-dose form of Renacidin. We are also excited about some of the new products that our R&D department has been working on, especially the Lubrajel Marine, and expect some of those products to begin contributing to sales and earnings over the next few years. We remain optimistic that we will continue to see strong sales as the year progresses, and look forward to even stronger sales as some of these innovative cosmetic ingredients find their way into new consumer products.

Sincerely,

UNITED-GUARDIAN, INC.



Ken Globus
President

**RESULTS FOR THE SECOND QUARTER ENDED
JUNE 30, 2017 and JUNE 30, 2016***

STATEMENTS OF INCOME
(UNAUDITED)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Sales:				
Gross sales	\$ 3,891,656	\$ 2,215,952	\$ 6,764,379	\$ 4,546,529
Sales rebates and allowances	<u>(116,905)</u>	<u>(76,787)</u>	<u>(203,240)</u>	<u>(144,788)</u>
Net Sales	<u>3,774,751</u>	<u>2,139,165</u>	<u>6,561,139</u>	<u>4,401,741</u>
Costs and expenses:				
Cost of sales	1,667,113	1,007,666	2,931,209	1,905,391
Operating expenses	418,605	465,329	882,085	932,885
Research and development	<u>158,275</u>	<u>157,895</u>	<u>348,004</u>	<u>335,461</u>
Total costs and expenses	<u>2,243,993</u>	<u>1,630,890</u>	<u>4,161,298</u>	<u>3,173,737</u>
Income from operations	<u>1,530,758</u>	<u>508,275</u>	<u>2,399,841</u>	<u>1,228,004</u>
Investment income	<u>72,796</u>	<u>82,906</u>	<u>125,668</u>	<u>126,218</u>
Income before provision for income taxes	1,603,554	591,181	2,525,509	1,354,222
Provision for income taxes	<u>499,405</u>	<u>185,800</u>	<u>786,925</u>	<u>423,750</u>
Net Income	\$ <u>1,104,149</u>	\$ <u>405,381</u>	\$ <u>1,738,584</u>	\$ <u>930,472</u>
Earnings per common share				
(Basic and Diluted)	\$ <u>0.24</u>	\$ <u>.09</u>	\$ <u>0.38</u>	\$ <u>0.20</u>
Weighted average shares – basic and diluted	<u>4,594,319</u>	<u>4,594,319</u>	<u>4,594,319</u>	<u>4,594,319</u>

BALANCE SHEETS

ASSETS:

	JUNE 30, <u>2017</u> (UNAUDITED)	DECEMBER 31, <u>2016</u> (AUDITED)
Current assets	\$ 14,127,889	\$ 13,714,172
Net property, plant and equipment	999,911	1,090,591
Deferred income taxes (net)	---	2,382
Other assets (net)	<u>51,883</u>	<u>59,295</u>
TOTAL ASSETS	\$ <u>15,179,683</u>	\$ <u>14,866,440</u>

LIABILITIES AND STOCKHOLDERS' EQUITY:

	JUNE 30, <u>2017</u>	DECEMBER 31, <u>2016</u>
Current liabilities	\$ 1,324,477	\$ 1,045,951
Deferred income taxes (net)	75,182	---
Stockholders' equity	<u>13,780,024</u>	<u>13,820,489</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ <u>15,179,683</u>	\$ <u>14,866,440</u>

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