



# UNITED-GUARDIAN, INC.

Corporate Divisions  
GUARDIAN LABORATORIES

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## **Second Quarter 2015 Report to Stockholders**

August 27, 2015

Dear Stockholder:

Following on the heels of the record sales we had in the first quarter of the year, I am happy to report that our second quarter was the strongest second quarter in our history, resulting in record sales and earnings for the first six months of the year. Sales for the second quarter of 2015 increased 38% from \$2,980,136 in 2014 to \$4,124,091 this year. That increase in sales resulted in a 68% increase in second quarter net income, which increased from \$901,273 (\$0.20 per share) in 2014 to \$1,510,511 (\$0.33 per share) this year.

In addition to the strong second quarter results, we also achieved record six-month sales and earnings, with six-month sales increasing 22% from \$6,939,628 in 2014 to \$8,496,484 this year, and net income for the first half of the year increasing 33% from \$2,237,026 (\$0.49 per share) to \$2,971,021 (\$0.65 per share).

The increase in net income for the first half of 2015 also resulted in a further strengthening of our already strong balance sheet, with working capital increasing from \$13,688,101 at December 31, 2014 to \$14,375,952 at June 30, 2015, and stockholders' equity increasing from \$14,736,938 to \$15,381,038. Our current ratio continues to be exceptionally strong at 11.6 to 1.

The primary reason for the strong second quarter sales and earnings was the significant increase in sales of our products into China and Korea. That resulted in a 53% increase in sales of our personal care product sales in the second quarter of this year compared with the second quarter of 2014, and a 28% increase in personal care product sales for the first six months of 2015 compared with the same period last year.

As I'm sure most of you are aware, China recently devalued its currency by 2%, which makes Chinese imports even cheaper than they already were. Although it is too soon to know how (or if) this will affect our sales, we are aware that there are competitive products made in China that compete with some of our products, so we are watching this situation closely. But based on information provided to us by our marketing partner in China, it appears that our Asian sales will continue to be strong for the near future. The personal care product line in which our products are being used in China is a relatively new one that has grown steadily over the past year or so. Although the overall Chinese economy has been contracting recently, the personal care products market is usually one of the last sectors to be impacted during recessionary periods, so we are hopeful that the increase in sales that we have experienced will continue despite the economic

slowdown that is currently impacting not only China but many other parts of the global economy as well, including Europe. We are continuing to work closely with our marketing partner in China to monitor the competitive situation there to ensure that we are doing everything we can to maintain the strong sales that we have experienced recently in Asia.

In regard to our pharmaceutical products, sales of Renacidin® Irrigation, our most important pharmaceutical product, increased slightly for the first six months of the year, due primarily to an increase in sales in the first quarter of the year. Sales of these products in the first two months of the third quarter have also increased, and we are hoping that this gradual increase will continue. However, Renacidin sales have still not reached the sales levels that had been attained in previous years. The lower Renacidin sales were the direct result of two production curtailments on the part of the company that had been manufacturing Renacidin for us, which resulted in two instances of product shortages and outages during the past few years. That is no longer a problem, since we have taken in sufficient inventory to last us until we are able to market our new single-dose form of Renacidin, which we have been working on for the past few years. Our application to the FDA to market that product was submitted over a year ago, and we expect to receive FDA approval soon. Unless something unforeseen happens, we are still projecting that we will be able to begin marketing that product in the first quarter of 2016. This process has certainly taken longer than any of us had expected, but we are optimistic that we will see increased sales of Renacidin once we begin selling the new dosage form.

We are continuing to work closely with our marketing partners to develop new products for the global personal care market. Our sales of these products into Europe have declined over the past couple of years, not only because of the continuing economic problems being experienced in Europe, but also due to the strengthening of the dollar vs. the Euro. We are also seeing additional competition for our personal care products in Europe, especially from some competitive products from China. However, we believe that the extensive variety of Lubrajel® formulations, as well as our reputation for producing quality products, will enable us to remain competitive.

We are also continuing our efforts to expand our personal care products line further by the addition of several new products in our new Lubrajel "Natural" line, which is a line of water-based moisturizers and emollients that contain only "natural" ingredients. We have begun to see initial small sales of the first product in this line, and we are hopeful that these sales will grow, especially as we add additional products. Two of those additional formulations are currently being evaluated by our largest marketing partner, and we hope to see sales of those products beginning in 2016.

Despite the recent downturn in the stock market, our stock price has remained relatively strong, being impacted less than many other stocks. We believe that this is due to the confidence that many investors have in our company and our prospects for the future. Based on our record second quarter sales, as well as our third quarter sales-to-date, we anticipate that sales and earnings will continue to be strong, especially if the demand from China continues. I am also hopeful that by the next stockholders letter I will be able to give our stockholders good news about the Renacidin approval, which should give us a sales boost in 2016. We appreciate the loyalty of many of our long-term stockholders, and will continue to do our best to make sure that your loyalty was justified and is rewarded.

Sincerely,

UNITED-GUARDIAN, INC.



Ken Globus  
President

# FINANCIAL RESULTS

## STATEMENTS OF INCOME (UNAUDITED)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Net sales	\$ <u>4,124,091</u>	\$ <u>2,980,136</u>	\$ <u>8,496,484</u>	\$ <u>6,939,628</u>
Costs and expenses:				
Cost of sales	1,403,942	1,104,254	3,083,144	2,537,172
Operating expenses	<u>600,532</u>	<u>623,942</u>	<u>1,227,767</u>	<u>1,239,584</u>
Total costs and expenses	<u>2,004,474</u>	<u>1,728,196</u>	<u>4,310,911</u>	<u>3,776,756</u>
<b>Income from operations</b>	<u>2,119,617</u>	<u>1,251,940</u>	<u>4,185,573</u>	<u>3,162,872</u>
Other income:				
Investment income	72,894	53,933	126,348	87,752
Income from damage settlement	<u>---</u>	<u>---</u>	<u>---</u>	<u>24,402</u>
Total other income	<u>72,894</u>	<u>53,933</u>	<u>126,348</u>	<u>112,154</u>
<b>Income before income taxes</b>	2,192,511	1,305,873	4,311,921	3,275,026
Provision for income taxes	<u>682,000</u>	<u>404,600</u>	<u>1,340,900</u>	<u>1,038,000</u>
<b>NET INCOME</b>	\$ <u>1,510,511</u>	\$ <u>901,273</u>	\$ <u>2,971,021</u>	\$ <u>2,237,026</u>
<b>Earnings per common share (Basic and Diluted)</b>	\$ <u>0.33</u>	\$ <u>0.20</u>	\$ <u>0.65</u>	\$ <u>0.49</u>
Weighted average shares – basic and diluted	<u>4,596,439</u>	<u>4,596,439</u>	<u>4,596,439</u>	<u>4,596,439</u>

## BALANCE SHEETS

### ASSETS

	<b>JUNE 30,</b> <b><u>2015</u></b> (UNAUDITED)	<b>DECEMBER 31,</b> <b><u>2014</u></b> (AUDITED)
<b>Current assets:</b>		
Cash and cash equivalents	\$ 1,859,046	\$ 2,023,383
Marketable securities	10,254,331	9,389,501
Accounts receivable, net of allowance for doubtful accounts of \$18,000 at June 30, 2015 and \$30,000 at December 31, 2014	2,044,292	1,593,260
Inventories (net)	1,142,765	1,237,154
Prepaid expenses and other current assets	192,643	165,691
Prepaid income taxes	21,994	30,643
Deferred income taxes	<u>223,439</u>	<u>223,439</u>
<b>Total current assets</b>	<b><u>15,738,510</u></b>	<b><u>14,663,071</u></b>
<b>Property, plant and equipment:</b>		
Land	69,000	69,000
Factory equipment and fixtures	4,160,060	4,138,875
Building and improvements	<u>2,776,602</u>	<u>2,773,002</u>
Total property, plant and equipment	7,005,662	6,980,877
Less: Accumulated depreciation	<u>5,858,946</u>	<u>5,772,974</u>
<b>Total property, plant and equipment, net</b>	<b><u>1,146,716</u></b>	<b><u>1,207,903</u></b>
<b>Other asset:</b>	<u>70,692</u>	<u>68,042</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>16,955,918</u></b>	<b>\$ <u>15,939,016</u></b>

### LIABILITIES AND STOCKHOLDERS' EQUITY

	<b>JUNE 30,</b> <b><u>2015</u></b> (UNAUDITED)	<b>DECEMBER 31,</b> <b><u>2014</u></b> (AUDITED)
<b>Current liabilities:</b>		
Accounts payable	\$ 178,033	\$ 141,111
Accrued expenses	1,002,575	833,859
Income taxes payable	<u>181,950</u>	<u>---</u>
<b>Total current liabilities</b>	<b><u>1,362,558</u></b>	<b><u>974,970</u></b>
<b>Deferred income taxes</b>	<u>212,322</u>	<u>227,108</u>
<b>Commitments and contingencies</b>		
<b>Stockholders' equity:</b>		
Common stock \$.10 par value, authorized, 10,000,000 shares; 4,596,439 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively.	459,644	459,644
Accumulated other comprehensive income	231,167	259,869
Retained earnings	<u>14,690,227</u>	<u>14,017,425</u>
<b>Total stockholders' equity</b>	<b><u>15,381,038</u></b>	<b><u>14,736,938</u></b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ <u>16,955,918</u></b>	<b>\$ <u>15,939,016</u></b>