



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

Third Quarter 2015 Report to Stockholders

January 4, 2016

Dear Stockholder:

I am pleased to report that sales for the third quarter of 2015 were very strong, increasing by 44% over the third quarter of 2014. Net sales for the quarter were \$3,620,365, compared with \$2,516,620 for the third quarter of 2014. Net income for the quarter increased by almost 200% to \$1,217,537 (\$0.26 per share), compared with \$411,426 (\$0.09 per share) for the third quarter of 2014. For the nine-month period ended September 30th net sales increased 28% to \$12,116,849, compared with \$9,456,248 for the same period last year, and net income increased 58% to \$4,188,558 (\$0.91 per share) from \$2,648,452 (\$0.58 per share) for the first nine months of 2014.

The strong third quarter and nine-month sales were primarily attributable to substantial shipments of one of our Lubrajel® products into China. Those sales more than offset some sales declines in Western Europe, where many of the economies are still sluggish and the dollar is very strong, which has impacted our European sales over the past few years.

Toward the end of the third quarter we were advised by Ashland Specialty Ingredients (“ASI”), our marketing partner for China, that due to a regulatory issue in China, as well as some unrealistic sales projections by some of ASI’s customers, that ASI had overestimated its inventory requirements for China, resulting in an overstock situation. While the regulatory issue had nothing to do with Lubrajel, it did affect some of the products in which Lubrajel was a component. As a result, ASI’s purchases from us of product intended for China declined significantly, beginning at the end of the third quarter and continuing throughout the fourth quarter. This overstock situation happened once before with ASI, and we have had a number of discussions with them to find ways to more accurately project their inventory requirements and prevent this from happening again. Unfortunately, because of the excess inventory situation, our fourth quarter sales were significantly impacted as ASI worked off that inventory. They have informed us that they expect to resume their purchases of product for China sometime in the first quarter of 2016. While we are still very pleased with our sales for the first nine months of 2015, and are expecting sales and earnings for the full year to be up compared with 2014, I thought it was important to make our stockholders aware that because of this overstock situation in China our fourth quarter sales will be significantly lower than the sales we averaged in the first three quarters of 2015.

As far as new product development is concerned, we are continuing to work with our marketing partners on a number of new cosmetic ingredients. Two additional products in our new Lubrajel “Natural” product line are currently being evaluated by ASI, which is our largest marketing partner, and we expect feedback from them shortly. The Lubrajel Natural product line is a line of water-based moisturizers formulated exclusively with natural ingredients. We have started to see some initial sales of the first product in this line, and are hopeful that those sales will continue to increase in 2016. Once we receive

feedback on the two additional products we will finalize those formulations and begin to sample them to all of our distributors.

In addition to the two new Lubrajel Natural products we are also developing two non-Lubrajel products that we hope to bring to market in 2016. One of them is a mild exfoliant for use in anti-aging products, and the other is a silicone-like emollient for use in skin creams and moisturizers. The emollient is currently being evaluated by all of our marketing partners, and the exfoliant is initially being evaluated only by ASI. Once we finalize that formulation we will then sample it to the rest of our marketing partners.

It is important to keep in mind that it typically takes at least 12-18 months for a new ingredient to find its way into a new cosmetic formula, so assuming that we finalize these new formulations in the first half of 2016 it probably will not be until sometime in 2017 that we will begin to see sales of these new products. It has always been our goal to try to place at least one new product into the hands of our marketing partners each year, but it does take time for customers to work with any new cosmetic ingredient and to bring new products to market.

This third quarter report to stockholders went out a little later than usual this year because we expected to hear from the FDA at any time regarding the status of our submission to market our most important drug product, Renacidin[®] Irrigation, in a new 30mL single-dose plastic bottle, which we have been developing over the past two years. I am very pleased to report that in mid-December we finally received FDA approval to market the new product! We are now working closely with the company that will be producing the product for us, and plan to begin manufacturing the new product in mid-February. Based on that projected manufacturing date, we would be able to start selling it around the middle of March. We expect our current inventory of Renacidin to last us through the end of March, so the timing is very good, and there should be very little overlap of sales of the two products. We are also working on a new marketing campaign to make sure that doctors are aware of the new product. Although it is too soon to know whether this new single-dose form of Renacidin will have the kind of impact on our sales that we are hoping for, we are very excited about finally being able to launch it after all these years of development work. Because this new 30mL bottle will be much more convenient for both medical professionals and caregivers to use than the current 500mL glass bottle, we are optimistic that we will be able to expand the market for this product and increase our revenue from Renacidin over the coming years.

Although the overstock situation in China and its impact on our fourth quarter sales has been disappointing, that situation should be resolved over the next couple of months. Since we are anticipating that ASI's purchases of product for sale into China will be much more conservative next year (which we hope will prevent this overstock situation from happening again), we are anticipating that the first quarter of 2016 will most likely not be as robust as last year's first quarter. But we are also optimistic that sales of the new single-dose form of Renacidin will generate new interest in the product and additional sales next year, which may offset some of the reduced sales into China and should result in another profitable year in 2016.

Sincerely,

UNITED-GUARDIAN, INC.



Ken Globus
President

**RESULTS FOR THE THIRD QUARTER ENDED
SEPTEMBER 30, 2015 and SEPTEMBER 30, 2014***

STATEMENTS OF INCOME

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Net sales	\$ 3,620,365	\$ 2,516,620	\$ 12,116,849	\$ 9,456,248
Costs and expenses	<u>1,926,561</u>	<u>1,972,772</u>	<u>6,237,472</u>	<u>5,749,528</u>
Income from operations	1,693,804	543,848	5,879,377	3,706,720
Other income	<u>74,133</u>	<u>51,078</u>	<u>200,481</u>	<u>163,232</u>
Income before income taxes	1,767,937	594,926	6,079,858	3,869,952
Provision for income taxes	<u>550,400</u>	<u>183,500</u>	<u>1,891,300</u>	<u>1,221,500</u>
Net Income	\$ <u>1,217,537</u>	\$ <u>411,426</u>	\$ <u>4,188,558</u>	\$ <u>2,648,452</u>
Earnings per common share (Basic and Diluted)	\$ <u>0.26</u>	\$ <u>0.09</u>	\$ <u>0.91</u>	\$ <u>0.58</u>

BALANCE SHEETS

ASSETS

	SEPTEMBER 30, <u>2015</u>	DECEMBER 31, <u>2014</u>
		(AUDITED)
Current assets	\$ 16,928,516	\$ 14,663,071
Total property, plant and equipment, net	1,111,820	1,207,903
Other assets	<u>71,507</u>	<u>68,042</u>
TOTAL ASSETS	\$ <u>18,111,843</u>	\$ <u>15,939,016</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

	SEPTEMBER 30, <u>2015</u>	DECEMBER 31, <u>2014</u>
		(AUDITED)
Current Liabilities	\$ 1,450,320	\$ 974,970
Deferred income taxes	154,091	227,108
Stockholders' equity	<u>16,507,432</u>	<u>14,736,938</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ <u>18,111,843</u>	\$ <u>15,939,016</u>

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