



# 2015 ANNUAL REPORT

to the stockholders of  
**UNITED-GUARDIAN, INC.**

April 14, 2016

Dear Stockholder,

I am pleased to report that 2015 was another profitable year for us, with increases in both sales and earnings compared with 2014. It was also an unusual year due to some issues that arose during the year that were beyond our control but which impacted both our fourth quarter and year-end financial results. It was also the year in which we finally received FDA approval to market our new single-dose form of Renacidin<sup>®</sup>, a goal we have been working towards for several years. I will discuss the impact of all of these events later in this letter.

But first the financial results. Net sales for FY-2015 were up 4.1% over last year, increasing from \$13,449,679 in 2014 to \$14,006,244 in 2015. This resulted in net income increasing from \$4,050,416 (\$0.88 per share) in 2014 to \$4,606,929 (\$1.00 per share) in 2015. Sales of our personal care products, in particular our Lubrajel<sup>®</sup> line of water-based moisturizers and lubricants, increased by just over 5%, with virtually all of that increase attributable to sales of our Lubrajel Oil into China by our largest marketing partner, Ashland Specialty Ingredients ("ASI"). Sales of our products in Korea also increased significantly, but that increase was offset by a comparable sales decline in Europe, where we have been experiencing increased competition from lower-priced Chinese-made copies of our products that are being marketed by a Korean company.

In the fourth quarter of 2015 our sales of Lubrajel Oil into China, which had been very strong for the first three quarters of the year, decreased substantially. This was a result of ASI having purchased significantly more inventory for China than it needed based on its actual sales levels. Some of the build-up of inventory was caused by a regulatory issue in China that was unrelated to Lubrajel but affected sales of products in which Lubrajel was a component, and some was the result of lower Lubrajel sales due to increased competition in China from the lower-priced Chinese copies. Unfortunately, the excess inventory error was not discovered by ASI until ASI had accumulated enough inventory to last through the first half of 2016. As a result, there have been no significant purchases of that product by ASI for sale in China since September 2015, and, based on their most recent projection, ASI does not expect to resume significant purchases of Lubrajel for shipment to China until around August of this year. This reduction in purchases of that one product impacted not only our fourth quarter sales, but will impact our sales for the first half of 2016 as well.

In addition to the excess inventory situation in China, we have also seen increased competition in other geographic areas as well, particularly Europe, again due largely to the marketing of cheaper Chinese copies of our products. This increasingly competitive environment has been primarily the result of a willingness on the part of certain companies, such as the Korean company mentioned above, to sell their products at very low profit margins. While we believe that our product is superior in quality and performance to what is being made in China, it is sometimes difficult to convince customers of that, and clearly some customers have been willing to take a chance on substituting the Chinese copies for our product in order to save money.

We are acutely aware of this increasingly competitive situation and its impact on our sales in 2015, and are working closely with our marketing partners to provide information to customers pointing out the differences between our product and those of some of our competitors. We intend to do everything we can to recover some of the lost sales, including, when necessary on a case-by-case basis, reducing prices on some of our Lubrajel products to make them more competitive. This will be a joint effort by us and our marketing partners. We are also developing new Lubrajel products that we can market at a lower price, which we hope will enable us to recover some of the business we lost without having a big impact on our profit margins.

In addition to developing these new lower-cost forms of Lubrajel, we are also continuing our development work on other new and innovative products for the personal care market. The following are brief descriptions of some of the development projects:

**LUBRAJEL NATURAL MARINE and CARAJEL:** two new “natural” versions of Lubrajel using some components derived from marine sources. The formulations for these products have been finalized and we expect to begin marketing them shortly. The Lubrajel Natural Marine has already been certified as “natural” by Ecocert, and certification for Carajel is expected as well.

**LUBRAJEL OIL NATURAL:** a new natural form of our original Lubrajel Oil, with similar lubricating properties but based on all-natural components. Like the other Lubrajel Natural products, this product has been certified as “natural” by Ecocert. The formulation for this product is in the process of being finalized. We continue to believe that there is a growing demand for natural products, especially in the personal care market, and expect to add additional products to this line in the future if these initial products are successful.

**LUBRAJEL TERRA:** this will be another product in the Lubrajel Natural line. It will be based on polysaccharides from soil-grown raw materials. This product is in a very early stage of development.

**GLYCERYL GLYCOLATE:** an anti-aging skincare ingredient. We are still in the process of developing a marketable formulation for this product, and it is not yet known whether we will be successful in doing so. Work on this project should be completed by the end of the second quarter of this year, at which time we will be able to make a determination as to whether or not we should continue the project.

**GUARDIAN ESTER C24P:** a new product under development that is designed to be an alternative to silicone in creams and lotions. Very preliminary samples have been sent to our distributors for an initial evaluation to determine whether there is sufficient interest to proceed further.

**AMLA COMPLEX:** an extract of the Amla fruit (Indian Gooseberry), which is believed to have certain health benefits, including improved skin health and healthier hair. It is high in antioxidant content, such as vitamin C. This product is in the early R&D phase and samples are not yet available for evaluation.

As I mentioned previously, at the end of December we finally received approval by the FDA to market our new 30mL single-dose form of Renacidin, our proprietary urological drug product used to dissolve calcifications in indwelling catheters. This new product, which is dispensed using a newly-developed plastic bottle with a tip made to fit directly into a catheter, replaces our old 500mL glass bottle that has been on the market since 1991. We received our first shipment of the new product in March, just as our existing inventory of the old product was running out, and sales of the new product began in the beginning of April. We are very excited about finally being able to bring this more patient-friendly product to market, and are optimistic that the new single-dose unit will enable us to increase our revenue from this product in 2016.

The excess inventory situation in China that impacted our fourth quarter sales was certainly very disappointing to us, but we are hopeful that sales into China will resume shortly. We also believe that the new lower-cost products we are developing will enable us to remain competitive despite an increasingly competitive personal care product market. We are confident that, with the assistance of our marketing partners, we will be able to adapt to the changing marketplace and continue to expand the market for both current and future personal care products. That, along with the expected increase in sales of Renacidin, should give us another profitable year in 2016.

Sincerely,

UNITED-GUARDIAN, INC.



Ken Globus  
President