



# 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](mailto:pgc@u-g.com)

## **Third Quarter 2016 Report to Stockholders**

December 9, 2016

Dear Stockholder:

I am pleased to report that sales for the third quarter of 2016 improved substantially over the first and second quarters of this year, resulting in third quarter earnings per share that equaled the combined earnings of the first and second quarters. Sales for the quarter increased by 62% over the second quarter of this year, and net income increased by 122%. When compared with the comparable quarter of 2015, which was an unusually strong one, sales were down by only 4.5%, which is a significant improvement over the first half of this year. Net income for the quarter decreased 26% from \$1,217,537 (\$0.26 per share) in the third quarter of 2015 to \$900,135 (\$0.20 per share) this year. Some of the decrease in net income was due to lower overall sales in 2016, but much of it was the result of significantly higher sales of Renacidin<sup>®</sup>, the company's most important pharmaceutical product, which has a lower margin than our personal care products, in the third quarter of this year compared with the same quarter in 2015.

While it is still too early to predict what our yearly sales of Renacidin will be, our new 30mL single-dose form of the product, which was approved by the FDA in December 2015 and introduced to the market in April 2016, has already generated significantly higher revenue than the product it replaced. We are currently working with an internet marketing company to implement a new internet marketing campaign for this product, to increase awareness of the new product on the part of both patients and physicians. We are expecting to launch that campaign in the first quarter of 2017.

Those of you who have been stockholders of ours for a while are aware that our marketing partner that markets our products in China significantly overestimated its inventory requirements during the first nine months of 2015, resulting in an overstock situation that took almost a year to correct. As a result, there were minimal sales of our products for distribution in China from September 2015 until this past September, when we finally received new orders. It is still too early to determine what our future sales in China will be, but we are hopeful that now that the overstock situation has been corrected there will be a gradual increase in those sales.

In addition to the expected increase in Renacidin sales, we are hopeful that we will start to see sales of some of the new products that we have been developing over the past few years. We are continuing to put most of our R&D efforts into developing new and unique products for the personal care market. Over the past few months we have begun to see an increase in sales of Lubrajel Natural, our first Lubrajel product made with only "natural" components, and we are hopeful that we will continue to see those sales increase. The next product that we are introducing to the personal care market is our new Lubrajel Marine, which is made from components sourced from marine vegetation. Like the original Lubrajel Natural, this product has

been certified as “natural” by Ecocert, a French company that certifies natural and organic cosmetic products and ingredients. This product will be marketed globally by our largest marketing partner, Ashland Specialty Ingredients, which worked jointly with us to develop this product. Ashland is very excited about the product’s potential, and plans to begin its marketing campaign in January.

We are also working on a number of other products for the personal care market, some of which I have mentioned in previous letters, including (a) a “natural” version of our Lubrajel Oil; (b) Amla Complex, a unique product that consists of an extract of the Amla fruit (Indian Gooseberry), which is believed to have certain health benefits, including improved skin health and healthier hair; and (c) a less expensive grade of Lubrajel that we hope to market in countries where some of our other Lubrajel products are too costly for many of the cosmetic companies to use in their inexpensive cosmetic formulations. This lower-cost Lubrajel is also being developed to enable us to better compete with some competitive products that have come on the market over the past few years, primarily from Asian competitors. While none of those competitors has the variety of Lubrajel products that we have, some of them are marketing their products at prices that are significantly lower than our equivalent products. Our goal is to develop some new products that will enable us to better compete with those products, while at the same time maintaining the high quality standards for which our products are known. We will also need to carefully target the marketing of these products to avoid affecting the sales of our current products. We know this will be a challenge, but we are optimistic that we will be successful in this effort.

Although the Lubrajel Marine is ready for marketing now, the other R&D projects mentioned above are all in various stages of development. We hope to have one or more of those products ready for marketing during 2017, and plan to continue to work closely with our marketing partners to determine where best to put our R&D efforts.

As a result of the strong third quarter sales, as well as our expectation that our fourth quarter sales will be strong as well, the Board of Directors, at its meeting on November 30th, declared a year-end dividend of \$0.40 per share, which will be payable on December 19, 2016 to all stockholders of record as of December 12, 2016. This brings the cumulative dividends paid to stockholders this year to \$0.75 per share. The decision of the Board to pay this dividend was based in part on its expectation that the improvement in sales that the company experienced in the second half of this year will continue into 2017. The Board also took into account the expected increase in Renacidin sales, as well as the potential for additional future sales that might be generated from some of the new products on which we are working. For those reasons, the Board concluded that the payment of a \$0.40 per share dividend was appropriate.

We are very pleased with the third quarter results, especially when compared with the first half of the year. We anticipate that we will be able to continue to increase our Renacidin sales, and that the development of the new products mentioned above will enable us to continue to compete in an increasingly competitive marketplace. We are confident that we will end the year with a much stronger fourth quarter than we had in 2015, and we look forward to continued growth in 2017.

Sincerely,

UNITED-GUARDIAN, INC.

A handwritten signature in black ink that reads "Ken Globus". The signature is written in a cursive, flowing style.

Ken Globus  
President

**RESULTS FOR THE THIRD QUARTER ENDED  
SEPTEMBER 30, 2016 and SEPTEMBER 30, 2015\***

**STATEMENTS OF INCOME**  
(condensed)

	<b>THREE MONTHS ENDED SEPTEMBER 30,</b>		<b>NINE MONTHS ENDED SEPTEMBER 30,</b>	
	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Net sales	\$ 3,457,633	\$ 3,620,365	\$ 7,859,374	\$ 12,116,849
Costs and expenses	<u>2,213,192</u>	<u>1,926,561</u>	<u>5,386,929</u>	<u>6,237,472</u>
<b>Income from operations</b>	<u>1,244,441</u>	<u>1,693,804</u>	<u>2,472,445</u>	<u>5,879,377</u>
Other income	<u>64,644</u>	<u>74,133</u>	<u>190,862</u>	<u>200,481</u>
<b>Income before income taxes</b>	1,309,085	1,767,937	2,663,307	6,079,858
Provision for income taxes	<u>408,950</u>	<u>550,400</u>	<u>832,700</u>	<u>1,891,300</u>
<b>Net Income</b>	\$ <u>900,135</u>	\$ <u>1,217,537</u>	\$ <u>1,830,607</u>	\$ <u>4,188,558</u>
<b>Earnings per common share (Basic and Diluted)</b>	\$ <u>0.20</u>	\$ <u>0.26</u>	\$ <u>0.40</u>	\$ <u>0.91</u>

**BALANCE SHEETS**  
(condensed)

<b><u>ASSETS</u></b>	<b>SEPTEMBER 30, <u>2016</u></b>	<b>DECEMBER 31, <u>2015</u></b>
		(AUDITED)
Current assets	\$ 15,581,274	\$ 14,517,960
Total property, plant and equipment, net	1,097,111	1,096,113
Other assets	<u>63,000</u>	<u>74,118</u>
<b>TOTAL ASSETS</b>	\$ <u>16,741,385</u>	\$ <u>15,688,191</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

	<b>SEPTEMBER 30, <u>2016</u></b>	<b>DECEMBER 31, <u>2015</u></b>
		(AUDITED)
Current Liabilities	\$ 1,455,716	\$ 988,367
Deferred income taxes	241,515	118,010
Stockholders' equity	<u>15,044,154</u>	<u>14,581,814</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	\$ <u>16,741,385</u>	\$ <u>15,688,191</u>

---

\* Unaudited unless otherwise indicated. Detailed financial information can be found at the company's web site at [www.u-g.com](http://www.u-g.com).