UNITED-GUARDIAN, INC.

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Third Quarter 2013
Report to Stockholders

December 3, 2013

Dear Stockholder:

The third quarter of 2013 was an eventful one for us for a couple of reasons, not the least of which was the return to the market of Renacidin® Irrigation, our most important pharmaceutical product. We received new inventory at the end of October, and began shipping product to our distributors on October 31st. In the month of November we sold over 9,500 bottles, a number we were very pleased with considering the product had been off the market for 15 months and that our typical monthly sales prior to the production curtailment averaged approximately 5,500 bottles a month. We know that many of these initial sales were for pipeline fill, so it will be a few months before we really know if, or by how much, the production curtailment will impact our future sales. But we feel that this was a very good start. I will discuss the Renacidin situation in more detail later in this letter.

The other noteworthy aspect of this quarter and the first nine months of the year was that despite our not having any Renacidin sales for the first three quarters of this year, our net sales were down by only $167,000 (1.5%) compared with the same period in 2012. Historically, Renacidin has generated an average of about $600,000 in revenue each quarter. In 2012 we had over $1 million in revenue from Renacidin during what was effectively a five month period of sales before inventory was depleted at the end of July 2012. This year we have been able to make up for almost all of the lost Renacidin revenue with increased sales of our personal care products, primarily our Lubrajel® line of proprietary water-based moisturizing and lubricating gels.

As a result of the strong third quarter sales, our net income for the first nine months of the year reached a new high of $4.2 million ($0.91 per share) on sales of $10,985,000. This was an 18% increase over the same period in 2012, when we earned $3.5 million ($0.77 per share) on sales of $11,151,000. The strong nine-month earnings were primarily the result of a 9% increase in sales of our personal care products. That increase was attributable to an increase of 13% in sales to Ashland Specialty Ingredients, our largest marketing partner, which was partially offset by a decrease in sales to some of our smaller marketing partners. Sales of our medical lubricants also were up (by 5.6%), which may have been partially attributable to the ordering patterns of some of our customers. Our earnings also benefited from the monthly compensation payments we have been receiving from our Renacidin supplier as a result of the production curtailment. We will continue to receive those payments (although at a reduced rate) for November and December of 2013, and January 2014, after which those payments will cease, now that production has resumed.

With Renacidin back on the market we have been able to focus more on the development of our new single-dose Renacidin bottle, a project that has been ongoing since the beginning of this year. We hope to have this new 30mL plastic bottle on the market by the end of next year. It will eventually replace our current 500mL glass bottle, and will provide the end user with a product that is much easier to use. We expect this new dosage form to significantly increase our revenue from this product line. While the timetable for this new product is a moving target, our current plan is to have our application with the FDA filed early in the second quarter of 2014, with the hope of receiving FDA approval to market the product in the fourth quarter of 2014. We have made arrangements with our current supplier to provide us with sufficient inventory to last until we are ready to start selling the new product. This should enable us to gradually phase out the existing 500mL bottle in 2015.

While I have spent a lot of time in this letter and previous letters discussing the Renacidin situation, I wouldn't want you to think that is all we have been working on, although sometimes it does seem that way! Our R&D group is continuing to develop new products for the personal care and medical markets. Our development efforts in the personal care area are focused on our new line of Lubrajel "Natural" products, which use natural ingredients. The first of these products is currently in the hands of our marketing partners and is being sampled to their customers. We hope to have at least two more products for this line by the end of next year. We are working closely with our marketing partners to develop additional products for the personal care products market, which I will discuss in more detail in my annual report to stockholders in April.

We are also working with a new customer interested in developing a new water-based lubricant for a non-cosmetic personal care use. The product will be based on Lubrajel but will be different from our current Lubrajel formulations, and will have different characteristics geared towards this particular intended use. It is too early to tell what the potential is with this new customer, or whether we will be successful in developing a product satisfactory to them. But we are looking forward to working with them on this project, and are optimistic that we will be able to develop the product they need.

Based on our strong earnings to date, and what we see as bright prospects for next year, the Board of Directors, at its meeting on November 22nd, declared a $0.50 per share cash dividend, which will be payable on December 20, 2013 to all stockholders of record as of December 6, 2013. This will be the 18th consecutive year that the company has paid a year-end dividend, and brings the total dividends paid this year to $0.97, an increase of 13% over the two regular dividends paid in 2012. In making this decision the Board took into account not only our projections for sales for the near future, but also any capital requirements that we will need for the ongoing Renacidin project and the other projects on which we are working right now. The Board concluded that we have sufficient cash reserves to fund all of these projects, and that increasing our year-end dividend would be in the best interests of our stockholders. We are very pleased that we are once again in a position to share our continued success with our shareholders, and hope that we will be able to continue to do so in the future.

Although it has been a difficult year in terms of being without our most important pharmaceutical product for most of the year, we are very pleased to have the product back on the market, and even more pleased that we were able to attain our record nine-month earnings without any revenue from Renacidin. This places us in an excellent position moving forward into 2014. Based on strong October and November sales, I am confident that we will end the year with record earnings, and even possibly record sales if we have a strong December. We are excited about the prospect of bringing our new Renacidin single-dose bottle to market next year, as well as the potential increase in revenue that should accompany the introduction of that more consumer-friendly packaging. With the assistance of our marketing partners we also look forward to expanding the revenue from our personal care product lines. I fully expect to end 2013 on a very positive note, and look forward to another profitable and exciting year in 2014.

Sincerely,

UNITED-GUARDIAN, INC.

Ken Globus

Ken Globus
President

FINANCIAL RESULTS FOR THE THIRD QUARTER & NINE MONTHS ENDED SEPTEMBER 30, 2013 and SEPTEMBER 30, 2012

STATEMENTS OF INCOME

(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30, 2013	THREE MONTHS ENDED SEPTEMBER 30, 2012	NINE MONTHS ENDED SEPTEMBER 30, 2013	NINE MONTHS ENDED SEPTEMBER 30, 2012
Net sales	$ 3,404,227	$ 3,527,387	$ 10,984,959	$ 11,151,179
Costs and expenses:				
Cost of sales	1,211,678	1,334,491	3,986,129	4,339,450
Operating expenses	654,027	598,100	1,851,486	1,749,217
Total costs and expenses	1,865,705	1,932,591	5,837,615	6,088,667
Income from operations	1,538,522	1,594,796	5,147,344	5,062,512
Other income:				
Investment income	47,739	51,065	166,846	162,413
Gain on sale of assets	---	---	---	2,750
Income from damage settlement	292,830	---	878,490	---
Total other income	340,569	51,065	1,045,336	165,163
Income before income taxes	1,879,091	1,645,861	6,192,680	5,227,675
Provision for income taxes	602,300	529,700	2,008,700	1,689,800
Net Income	$ 1,276,791	$ 1,116,161	$ 4,183,980	$ 3,537,875
Earnings per common share (Basic and Diluted)	$ 0.28	$ 0.24	$ 0.91	$ 0.77
Weighted average shares – basic and diluted	4,596,439	4,596,439	4,596,439	4,596,439

BALANCE SHEETS

ASSETS	SEPTEMBER 30, 2013 (UNAUDITED)	DECEMBER 31, 2012 (AUDITED)
Current assets:		
Cash and cash equivalents	$ 1,935,750	$ 1,748,382
Marketable securities	8,698,103	7,743,946
Accounts receivable, net of allowance for doubtful accounts of $29,000 at September 30, 2013 and December 31, 2012	2,376,054	1,017,627
Receivable in connection with damage settlement	97,610	518,050
Inventories (net)	1,121,591	1,242,750
Prepaid expenses and other current assets	99,784	132,458
Prepaid income taxes	---	3,602
Deferred income taxes	216,588	216,588
Total current assets	$ 14,545,480	$ 12,623,403

	SEPTEMBER 30, 2013 (UNAUDITED)	DECEMBER 31, 2012 (AUDITED)
Property, plant and equipment:		
Land	$ 69,000	$ 69,000
Factory equipment and fixtures	4,056,719	3,842,927
Building and improvements	2,747,263	2,725,993
Waste disposal plant	133,532	133,532
Total property, plant and equipment	7,006,514	6,771,452
Less: Accumulated depreciation	5,676,501	5,535,589
Total property, plant and equipment, net	1,330,013	1,235,863
Other assets	4,438	---
TOTAL ASSETS	$ 15,879,931	$ 13,859,266

LIABILITIES AND STOCKHOLDERS' EQUITY

	SEPTEMBER 30, 2013 (UNAUDITED)	DECEMBER 31, 2012 (AUDITED)
Current liabilities:		
Accounts payable	$ 136,095	$ 151,385
Accrued expenses	704,436	676,123
Income taxes payable	99,624	---
Total current liabilities	940,155	827,508
Deferred income taxes	153,724	193,740
Commitment (Note 13)		
Stockholders' equity:		
Common stock $.10 par value, authorized, 10,000,000 shares; 4,596,439 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively.	459,644	459,644
Accumulated other comprehensive income	103,358	178,979
Retained earnings	14,223,050	12,199,395
Total stockholders' equity	14,786,052	12,838,018
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 15,879,931	$ 13,859,266