



2013 ANNUAL REPORT

to the stockholders of
UNITED-GUARDIAN, INC.

April 14, 2014

Dear Stockholder,

Our fiscal year that ended December 31, 2013 was another very strong one, with sales and earnings both setting new records and significantly exceeding our projections. This was especially gratifying considering that there were no sales of our most important pharmaceutical product, Renacidin™ Irrigation, until the last two months of the year (more on this later). The increased sales and earnings in 2013 were primarily the result of increased sales of our personal care products, especially our extensive line of Lubrajel™ water-based moisturizing and lubricating gels. Sales of these products rose by 21% in 2013, primarily due to the marketing efforts of our largest marketing partner, Ashland Specialty Ingredients (“ASI”). In China alone ASI’s sales of our cosmetic ingredients increased by over 40% in 2013 compared with 2012. Our foreign sales now make up about 70% of our sales, with our products being distributed globally by our six marketing partners.

As a result of the increase in sales of our personal care products, our net sales increased from \$13,825,764 in 2012 to \$15,416,893 in 2013, an increase of 11.5%. Our net income for the year increased from \$4,830,780 (\$1.05 per share) to \$5,903,309 (\$1.28 per share), a year-to-year increase of 22%. Because of our strong sales and earnings we were able to increase our year-end semi-annual dividend to \$0.50 per share from the \$0.44 per share we paid in 2012. When added to the \$0.47 per share dividend we paid in the first half of 2013, we distributed a total of \$0.97 per share in dividends to our stockholders in 2013, compared with \$0.86 per share in 2012 (for the two regular semi-annual dividends; we also paid a special dividend of \$0.50 per share in 2012 in anticipation of potentially adverse tax changes that were expected to (and did) take effect in 2013 for certain taxpayers). This is now the 18th consecutive year that we have paid a cash dividend, and that dividend has steadily increased over those years.

The significant earnings increase in 2013 positively impacted our financial strength, which has continued to improve each year. Working capital rose from \$11.8 million to \$13.1 million in 2013, and stockholders’ equity increased from \$12.8 million to \$14.2 million. Our current ratio remains very strong at 11.5 to 1.

As many of you probably know, since 2010 we have had supply problems with Renacidin, our urological drug product that is used primarily to keep indwelling catheters free flowing and for bladder irrigation. Production at our supplier’s manufacturing facility was suspended twice, and from August 2012 until October 2013 we had no inventory of this product to sell. As a result of the initial production curtailment in 2010, we entered into a settlement agreement with the supplier that reimbursed us for our lost profits, and we did the same for the second curtailment. This compensation was paid to us for each month that we did not have product to sell. We believe that these payments reimbursed us for most of the profit we lost. The payments also continued (albeit at a lower rate) for the first three months after we resumed sales. Although our current monthly sales are still a long way from our historic monthly average, we are hopeful that over time, as we continue our efforts to get the word out that Renacidin is back on the market, we will be able to restore our sales to their previous levels. Although the contract with our Renacidin supplier was due to terminate in January, we recently signed an extension agreement with them that will enable us to continue to obtain product from them for the rest of this year, and possibly even into 2015.

In the meantime, we are working with a new company to produce Renacidin in a single-dose plastic bottle. This bottle will hold 30mL of product versus the 500mL that our current glass bottle holds. This new dosage form will be much more convenient to use, especially for the many patients who typically only need to use 30mL at a time. The lighter bottles are also expected to reduce our shipping costs and damage claims. We are optimistic that we can significantly increase our sales of Renacidin with this new, more convenient dosage form. In February we completed our first three pilot runs using the new proprietary mold that was made specifically for us to make the new bottles. We are in the process of conducting stability testing on those bottles, and we hope to submit an application to the FDA in the second quarter of this year to market the new single-dose bottles. Our goal is to obtain FDA approval by the end of the year, and to begin selling the new product in the first quarter of 2015. We expect to have adequate supplies of the current bottle to last until we can start producing the new bottle.

In regard to our personal care products line, sales of those products continue to increase, especially the various formulations in our extensive Lubrajel product line. We believe that the variety of products in this line has enabled us to continue to increase our sales of these products. At the same time, we are continuing to develop new cosmetic ingredients to further expand our sales in this market segment. Our current product development focus is on cosmetic ingredients that use natural raw materials, which enables formulators to develop products that can be marketed as "natural". We believe that this will continue to be an area of interest and focus for many of the major cosmetic manufacturers. The first of these new products, our "Lubrajel Natural", is already being sampled to customers, and we hope to start seeing orders soon. This product has been certified as natural by Ecocert, a leading industry certification organization for natural and organic products. We are also working on two additional products for this line. One of them is a new natural Lubrajel formulation that uses marine polysaccharides, which are said to boost the body's natural immune system and promote healthier looking skin. As with the original Lubrajel Natural, this product has already been certified "natural" by Ecocert. The third product in this line is intended to be a natural version of our very successful Lubrajel Oil. The formulation for this product has not yet been finalized, but when it is we will apply for Ecocert certification for this product as well. We believe that all of the natural products have excellent market potential. We are working closely with our marketing partners to optimize the characteristics of these new products, and expect to complete the development work on all of them and begin sampling them to our customers by the end of the third quarter of this year.

While our primary development efforts over the past couple of years have been focused on the new natural products, there are a number of other personal care products that were developed during this time, or are currently under development, that make use of our extensive experience in formulating and manufacturing water-based moisturizers and lubricants. Some examples:

- **LUBRAJEL TF:** Lubrajel TF is a medical lubricant that we specifically developed for a new customer of ours in Germany. We completed work on this product in 2012, and small volumes have already been shipped. Since the customer has not yet completed all of its development work, to date this product has not been a significant contributor to revenue. But we are optimistic that we will see increased demand in 2014.
- **CONDOM LUBRICANT:** At the end of February we signed a product development agreement with an Australian company interested in having us develop a new water-based condom lubricant into which they could incorporate their patented anti-viral agent. They will be paying us to develop the new product for them and, if successful, we hope to be their supplier of the new lubricant. Work on this project began in March.
- **PERSONAL LUBRICANT:** We have also had discussions with a major condom manufacturer interested in expanding its line of condoms with a new personal lubricant. So far these discussions have been very preliminary, but further discussions are expected to take place later this year.
- **LUBRAJEL BA:** This oral care product was developed in 2012 specifically for ASI, and is being marketed exclusively by its oral care products division. In March we received our first small order. We are hopeful that this will be the first of many, and that ASI will be successful in developing a market for this product.

Since some of the products and projects mentioned above are in early stages of development, it is certainly too soon to know whether we will be successful in all of these development efforts, or whether any of these products can be successfully marketed even if the development work is successful. But we believe that they all have market potential, and we are optimistic that at least some of these development efforts will succeed. We will continue to work closely with our marketing partners to get their input on these ongoing projects, to ensure that we are making the best use of our R&D resources.

We are very pleased with the year we had in 2013, especially considering the revenue we lost by not having Renacidin to sell. The increase in sales of our cosmetic ingredients more than made up for that lost revenue, and the additional compensation payments we received as part of the Renacidin settlement agreement helped to boost our earnings despite the fact that the Renacidin sales were lost. We are excited about our ongoing development projects, which we think will generate additional revenue for us in future years. We are optimistic that the new sales that should result from that work, along with the continuing efforts of our marketing partners to expand the marketing of our products into new geographic markets, will enable us to continue to increase both sales and earnings in 2014.

Sincerely,

UNITED-GUARDIAN, INC.



Ken Globus
President