UNITED-GUARDIAN, INC.

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Second Quarter 2014
Report to Stockholders

August 28, 2014

Dear Stockholder:

As I'm sure most of you already know, our second quarter, while profitable, was not one of our stronger quarters, with sales and earnings both down compared with last year's second quarter. Sales for the quarter were $2,980,136 compared with $3,628,571 for the second quarter of 2013, and net income declined from $1,342,540 ($0.29 per share) to $901,273 ($0.20 per share). However, while our earnings this quarter were lower than last year, it was still a very profitable quarter. As a result, our balance sheet continued to strengthen, with working capital increasing from $13,061,866 at December 31, 2013 to $13,343,700 at June 30, 2014, and our current ratio rising from 11.5 to 1 at December 31, 2013 to 12.2 to 1 as of June 30 of this year.

There were three factors that came together in this quarter to adversely affect our sales, and I will explain each of them based on the information we have available. First, our sales to Ashland Specialty Ingredients ("ASI") were down considerably, despite the fact that they have reported to us that their sales of our products to their customers were actually up for the quarter and for the first six months of this year. According to ASI, the reason for the disconnect between what we sold to them and what they reported that they sold to their customers is that a number of their large customers forecasted higher product requirements for the end of last year and the first quarter of this year, compared with what they have projected for the balance of this year. As a result, our sales to them in the second quarter were much lower than in the first quarter, and this will probably continue for at least the first part of the third quarter. However, they have indicated to us that their need for product will continue to increase as the year progresses, so we are hopeful that the shortfall for the second quarter will at least be partially made up later in the year.

The second factor that negatively affected our second quarter sales was the loss of a customer for one of our medical products. We had noticed that their sales had started to decline in the second half of 2013, and we had been trying to get information from them for several months about the reason for their reduced purchases. Unfortunately, the customer was using a third party contract manufacturer, and they were not responsive to our inquiries. Only recently were we informed that their use of our ingredient in one of their products had been discontinued, and to date we have not been given a reason for it. We suspect that our product was replaced by a less expensive ingredient, but this has not been confirmed by them. But this particular customer had been purchased by a large pharmaceutical company several years ago, and reformulation of products is not uncommon in such situations.

While it always hurts to lose a customer, especially when you don't know why and didn't have the opportunity to try to retain that business, we are still optimistic that we can continue to increase the sales of our medical products. We are currently engaged in development work for a potential medical customer in Australia, developing for them a new water-based lubricant that will be compatible with their proprietary antiviral agent. That project is entering its second phase, and is proceeding well. If we are successful in providing them with what they need, and if they decide to have us manufacture the new product for them, we are hopeful that we will be able to replace the business that we lost.

The third factor in the lower second quarter sales was the slower-than-expected resumption of sales of our Renacidin® Irrigation, which, as most of you already know, had been off the market for 15 months due to production problems at our supplier's manufacturing site. We had been receiving compensation payments from that supplier to reimburse us for our lost profits. Those payments ended shortly after sales resumed (at the end of October 2013). During the first half of last year we were still receiving those payments, which had been based on our historic sales levels, which were higher than our current sales levels. As a result, at the present time Renacidin sales are not generating sufficient revenue to equal or exceed the compensation payments we had been receiving.

To assist us in determining why sales have not reached their previous levels (being only about 60% of what they were before the last production curtailment), we have recently retained an experienced pharmaceutical marketing consultant to gather data that will help us better understand what is happening in the marketplace. As far as we know, there is no effective substitute for Renacidin. So we are still optimistic that, with the consultant's assistance, we will be able to determine where to focus our efforts in order to recapture the sales that we lost. We expect to have a report from them by the end of September.

On a more positive note, I am pleased to report that we have filed our submission with the FDA to market a new 30mL single-dose plastic bottle of Renacidin Irrigation to replace our current 500mL glass bottle. We are now waiting for a determination from the FDA as to whether our application will receive an expedited review, which we have requested. The new product will be manufactured for us by Smiths Medical, an Illinois-based global provider of medical devices. Assuming that there is nothing major lacking in our submission, and that the FDA grants us an expedited review, we are hopeful that we will be able to start marketing the new product in the first quarter of next year. If we don't receive an expedited review, or if the FDA requires the submission of additional data, then that time frame could be pushed back. We believe that this more patient-friendly dosage and bottle will enable us to increase our Renacidin sales.

We are also continuing to focus on the development of new products for the personal care market. In particular, we are working on expanding our line of Lubrajel "Natural" products. This is a new line of water-based moisturizing and lubricating gels similar to our current Lubrajel line, but using only natural ingredients. Our first two products in this line have already received certification as "natural" by Ecocert, the leading certifying organization for natural and organic products. Development work is currently proceeding on the third product for this line. We recently received an order for Lubrajel Natural for a pilot run of a new product that is expected to launch sometime in November. The customer's product contains a high percentage of Lubrajel Natural, which we hope will result in our first significant sales of this new product if their product launch is successful.

We are also working closely with our marketing partners, particularly ASI, to determine where best to focus our R&D efforts. While our current focus on the natural products market has been well received by our marketing partners, we also want to make sure that we don't miss other market opportunities for additional personal care products.

Although we are always disappointed when we are not able to show an increase in sales and earnings from one quarter to the next, we also know that from time to time there will be bumps in the road, and we had our share this past quarter. But we remain optimistic that with continued product development we will be able to continue to increase our sales, and we are hopeful that during the remainder of this year we will be able to make up for at least some of the sales deficit we experienced this past quarter. With our first two Lubrajel Natural products now being evaluated globally by potential customers, and with our new Renacidin package close to becoming a reality, we continue to be excited about the company's long-term prospects.

Sincerely,

UNITED-GUARDIAN, INC.

Ken Globus

Ken Globus
President

RESULTS FOR THE SECOND QUARTER ENDED
JUNE 30, 2014 and JUNE 30, 2013*

INCOME STATEMENTS

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2014	**2013**	**2014**	**2013**
Net sales	$ 2,980,136	$ 3,628,571	$ 6,939,628	$ 7,580,732
Costs and expenses	1,728,196	1,999,186	3,776,756	3,971,910
Income from operations	1,251,940	1,629,385	3,162,872	3,608,822
Other income	53,933	357,755	112,154	704,767
Income before income taxes	1,305,873	1,987,140	3,275,026	4,313,589
Provision for income taxes	404,600	644,600	1,038,000	1,406,400
Net Income	$ 901,273	$ 1,342,540	$ 2,237,026	$ 2,907,189
Earnings per common share (Basic and Diluted)	$ 0.20	$ 0.29	$ 0.49	$ 0.63

BALANCE SHEETS

ASSETS	**JUNE 30, 2014**	**DECEMBER 31, 2013** (AUDITED)
Current assets	$ 14,534,555	$ 14,307,218
Total property, plant and equipment, net	1,274,771	1,334,501
Other asset	49,642	9,147
TOTAL ASSETS	$ 15,858,968	$ 15,650,866

LIABILITIES AND STOCKHOLDERS' EQUITY

	JUNE 30, 2014	**DECEMBER 31, 2013** (AUDITED)
Current Liabilities	$ 1,190,855	$ 1,245,352
Deferred income taxes	250,125	169,587
Stockholders' equity	14,417,988	14,235,927
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 15,858,968	$ 15,650,866

* Additional more detailed financial information can be found at the company's web site at www.u-g.com. Financial results are unaudited unless indicated otherwise.