UNITED-GUARDIAN, INC.

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GUARDIAN LABORATORIES

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Third Quarter 2014
Report to Stockholders

December 2, 2014

Dear Stockholder:

The third quarter of 2014, while profitable, was still a disappointing one for us, with sales and earnings both down from last year's third quarter. There were several factors that caused the decline in sales in the third quarter and first nine months of the year, all of which occurred in a relatively short period of time, and I will discuss all of those in detail.

First the financial results: sales in the third quarter decreased by 26% from $3,404,227 in the third quarter of 2013 to $2,516,620 this year, and sales for the nine-month period ended September 30th decreased from $10,984,959 to $9,456,248, a decline of 14%. Net income for the third quarter decreased from $1,276,791 ($0.28 per share) in 2013 to $411,426 ($0.09 per share) this year, and net income for the nine-month period decreased from $4,183,980 ($0.91 per share) to $2,648,452 ($0.58 per share).

There were two primary reasons for the decline in sales in the third quarter, and both were related to our sales to Ashland Specialty Ingredients ("ASI"), our largest marketing partner. Over the past few years ASI has been selling one of our Lubrajel™ products to a large global customer that had become the single largest customer for our products. In the third quarter of this year, sales to this customer dropped off significantly, which severely impacted our third quarter sales. At the end of the third quarter we were informed by ASI that the customer, without informing either us or ASI, decided to require a second source for the product. We do not yet know, and they have not disclosed to us or to ASI, the source of the substitute product. Although there are competitive products in the marketplace, to our knowledge there are no identical replacements.

After ASI became aware of this situation they had several meetings with the customer to determine exactly what was happening, and how we could get back at least some of the business we lost. As a result of those meetings, as well as a number of discussions with us, an agreement was reached for us to provide the customer with new pricing incentives designed to get back some of the lost business. That program is now in place, and over the past two months we have seen an increase in sales to ASI, much of which is intended for this customer. While it is still too soon to know how much of that business we can get back, with ASI's assistance we are making every effort to regain as much as we can.

The other significant factor in the lower third quarter sales was related more to the timing of orders rather than any real loss of business. Over the past few years ASI's sales of our products into China have grown considerably, and at the present time about one-third of ASI's purchases of our products are intended for shipment to customers in China. At the end of 2013 ASI placed substantial orders for product intended for the Chinese market. These orders were based on projections given to ASI by its Chinese customers and distributors. Most of those orders were shipped in the fourth quarter of 2013 and the first quarter of 2014. It became apparent as the third quarter progressed that ASI had purchased a significant amount of product sooner than it really needed to, which resulted in excess inventory that needed to be worked off in the second and third quarters. As a result, their purchases from us during that time declined. That excess inventory has now been sold, and we are expecting our sales to ASI of product intended for China to increase in the fourth quarter of this year. We have already seen some of that in our October and November sales to ASI. It is also a positive sign that ASI reported to us that the volume of our products that it has sold in China in the first nine months of 2014 has actually increased by over 20% compared with the same period last year. So while their overstocking of product in early 2014 did negatively affect our second and third quarter sales, we are hopeful that this situation will not recur, and we expect sales into China to remain strong.

These two factors, when combined with the loss of sales to a customer for one of our medical products at the end of 2013 and the slow resumption of sales of Renacidin® Irrigation, our most important pharmaceutical product, were the main contributors to the drop in sales that we experienced in the first nine months of 2014.

In regard to Renacidin, if you have been a stockholder for a while you know that twice in the past four years we had supply problems with the company that manufactures Renacidin for us. Both times it resulted in our inventory of Renacidin being depleted, and during the second production curtailment we were without any Renacidin to sell for about 15 months. Because sales have still not regained their historic levels, we recently retained a pharmaceutical consultant to help us understand why our sales of this product are not increasing as fast as we expected, and what we can do to change that. Their market research confirmed that there is still no competitive product on the market. But it also confirmed that some doctors are still not aware that the product is available again, despite our efforts to get the word out. With the data they supplied to us we were able to locate those doctors who had been prescribing the product for their patients before the production curtailments but had not prescribed it since. We have directly contacted all of those doctors, have sent them information on the product, and will be following up with them shortly. We also plan to do mailings to all urologists to supplement the emails and faxes that we sent out previously, and will be placing new advertisements in trade publications as well, all with the goal of ensuring that every urologist in the U.S. is aware that the product is available again.

We are currently awaiting FDA approval of our application to market Renacidin in a new single-dose unit, which was filed with the FDA in August. We are optimistic that this new patient-friendly packaging will result in increased sales of this product. Once we receive approval we will begin a new marketing campaign to ensure that all urologists are aware that not only is the product back on the market, but that there is now this convenient new dosage form available that we believe will be much easier to use than our current dosage unit. We are hopeful that this will enable us to regain the sales that we lost over the past few years as a result of those production curtailments.

We are also continuing to work with our marketing partners to bring some of our new Lubrajel "Natural" products to market. This is a line of water-based moisturizers formulated exclusively with natural ingredients. During this past year our marketing partners have been sampling these products to their customers, and ASI has just launched a new marketing campaign for the first two products in that line. It typically takes at least 12-18 months for a new ingredient to find its way into a new cosmetic formula, so if the products are going to be successful we should begin to see demand for them in the coming year. We are also close to completing the third product in that line, which will be a "natural" version of our popular Lubrajel Oil, which has the feel and viscosity of mineral oil but is water-based rather than oil-based.

Despite the lower third quarter sales it was still a profitable quarter, and we are expecting the full year to be another profitable one as well. For that reason, the Board of Directors, at its meeting on November 20, 2014, declared a $0.32 per share cash dividend, which will be payable on December 22, 2014 to all stockholders of record on December 8, 2014. This is the 19th consecutive year that the company has paid a year-end dividend, and brings the total dividends the company has paid to its stockholders this year to $0.80. Although that is less than we paid in 2013 due to the lower year-to-date earnings, the Board still believes that the financial strength of the company, as well as the projected earnings for the year, justify the payment of this dividend.

While we are disappointed that our third quarter sales were not stronger, we understand the reasons for the decline, and we are doing everything we can to try to get back some of the business we lost. We are hopeful that we will receive FDA approval our new single-dose form of Renacidin soon, so that we can begin marketing that new product as soon as possible. We are also encouraged by the strong sales we have experienced in October and November, with October sales equaling our sales for August and September combined, and November sales being close to that as well. So in the first two months of our fourth quarter we have already significantly exceeded our total third quarter sales, and we still have the full month of December to go. We are optimistic that we will finish the year with a very strong fourth quarter, resulting in yet another very profitable year for the company.

Sincerely,

UNITED-GUARDIAN, INC.

Ken Globus

Ken Globus
President

RESULTS FOR THE THIRD QUARTER ENDED SEPTEMBER 30, 2014 and SEPTEMBER 30, 2013*

STATEMENTS OF INCOME

	THREE MONTHS ENDED SEPTEMBER 30, 2014	THREE MONTHS ENDED SEPTEMBER 30, 2013	NINE MONTHS ENDED SEPTEMBER 30, 2014	NINE MONTHS ENDED SEPTEMBER 30, 2013
Net sales	$ 2,516,620	$ 3,404,227	$ 9,456,248	$ 10,984,959
Costs and expenses	1,972,772	1,865,705	5,749,528	5,837,615
Income from operations	543,848	1,538,522	3,706,720	5,147,344
Other income	51,078	340,569	163,232	1,045,336
Income before income taxes	594,926	1,879,091	3,869,952	6,192,680
Provision for income taxes	183,500	602,300	1,221,500	2,008,700
Net Income	$ 411,426	$ 1,276,791	$ 2,648,452	$ 4,183,980
Earnings per common share (Basic and Diluted)	$ 0.09	$ 0.28	$ 0.58	$ 0.91

BALANCE SHEETS

ASSETS

	SEPTEMBER 30, 2014	DECEMBER 31, 2013 (AUDITED)
Current assets	$ 14,637,676	$ 14,307,218
Total property, plant and equipment, net	1,239,582	1,334,501
Other assets	53,058	9,147
TOTAL ASSETS	$ 15,930,316	$ 15,650,866

LIABILITIES AND STOCKHOLDERS' EQUITY

	SEPTEMBER 30, 2014	DECEMBER 31, 2013 (AUDITED)
Current Liabilities	$ 923,713	$ 1,245,352
Deferred income taxes	224,816	169,587
Stockholders' equity	14,781,787	14,235,927
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 15,930,316	$ 15,650,866

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