2014 ANNUAL REPORT

to the stockholders of

UNITED-GUARDIAN, INC.

April 14, 2015

Dear Stockholder,

This past year was an unusual one for us, starting off and finishing very strong, but with some disappointing results in between. There were a number of reasons for this, some of which may or may not factor into our revenue in 2015, and I will explain all of these in detail.

As I pointed out in my last stockholder letter, our third quarter was not a strong one, and we knew that it would significantly impact our sales and earnings for the entire year. We did, however, have a very strong fourth quarter, which made up for some of the third quarter weakness. It would have been very difficult, if not impossible, for us to make up for all of the deficiency we experienced in the third quarter. As a result, sales for the year were down by just under 13%, from $15,416,893 in 2013 to $13,449,679 in 2014. Net income for the year was down from $5,903,309 ($1.28 per share) in 2013 to $4,050,416 ($0.88 per share) in 2014.

The decline in sales and earnings was primarily attributable to reduced sales of our personal care products, which decreased by almost 18% in 2014. Sales of our medical products also were down (by approximately 18%) due to the loss of a customer for one of our medical products. Partially offsetting those declines was an increase of $731,000 in sales of Renacidin® Irrigation, our most important pharmaceutical product. Despite the revenue decrease in 2014 we continued to be very profitable, with net income for the year of $4,050,416, or $0.88 per share. As a result, our financial strength continued to grow, with stockholders' equity increasing from $14,235,927 to $14,736,938, retained earnings increasing from $13,644,160 to $14,017,425, and working capital increasing from $13.1 million as of December 31, 2013 to $13.7 million at December 31, 2014. During that period our current ratio increased from 11.5 to 1 to 15.0 to 1.

The main reason for the decrease in sales of our personal care products was the loss of some of the business we had with a significant customer for one of our Lubrajel™ products. The Lubrajel product line is a varied line of water-based moisturizers and lubricants, and is our largest revenue generator. During 2014 this customer had a change in management, which resulted in a decision to have two sources for the product that they had been buying exclusively from us. We did not become aware of this until the third quarter of 2014, when our largest marketing partner, Ashland Specialty Ingredients ("ASI"), notified us that this customer had purchased significantly less product year-to-date than it had in the previous year. Once we became aware of this we worked with ASI to offer incentives to this customer to increase its purchases from us. As a result, sales to this customer did increase at the end of 2014. But it is too early to determine what their level of purchases will be in 2015. While we are hopeful that the price incentives we offered them will be sufficient motivation for them to resume larger purchases from us, we probably won't know the results of these efforts until later in the second quarter.

In addition to the decreased sales to that one customer, the timing of orders also negatively affected our 2014 sales. Over the past few years our sales into China through ASI have steadily increased. In 2014 approximately one-third of ASI's purchases from us were intended for shipment to China. Based on projections from some of ASI's larger-volume Chinese customers at the end of 2013, ASI placed substantial orders for Lubrajel products, much of which was shipped at the end of 2013. As 2014 progressed it became apparent that ASI had purchased significant volumes of product much sooner than it really needed to, based on the inaccurate projections it had received from some of its customers in China. This resulted in a lag in sales in 2014 until ASI's inventory of those products was depleted. Sales finally resumed in the fourth quarter of 2014, and we now expect that ASI's purchases of product intended for shipment to China will be more evenly spread out in 2015. As a result of that large intake of inventory in late 2013 and early 2014, sales in 2014 were lower than they would have been had those orders been placed more evenly throughout 2014. Since the beginning of 2015 we have been receiving steady orders from ASI for product intended for China, and expect sales this year to be more representative of the increase in business that we have experienced in China. ASI did report to us last year that sales to its Chinese customers in the first nine months of 2014 increased 20% over the same period in 2013, and they have indicated that they expect sales into China to remain strong in 2015.

The other significant factor in the decrease in net income in 2014 related to our resumption of Renacidin sales. As many of you already know, production of Renacidin had been suspended twice over the past few years due to regulatory and production problems experienced by the company that manufactures Renacidin for us. The last production curtailment ended in October 2013. As a result, in 2013 there were only two months of sales, compared with a full year in 2014. That was the reason sales of Renacidin increased by so much in 2014. However, we had been receiving monthly payments from our supplier to compensate us for the sales we lost as a result of the production curtailment, and those payments ceased at the beginning of 2014. Since Renacidin sales are still lower than they had been before the production curtailments, the income generated from Renacidin in 2014 did not make up for the discontinuation of the compensation payments we had been receiving. That also contributed to lower net income in 2014.

These two factors, along with the loss of the medical product customer at the end of 2013, were the main contributors to the drop in sales that we experienced in the first nine months of 2014.

In regard to Renacidin, in August 2014 we submitted an application to the FDA to market a new 30mL single-dose form of Renacidin, which is currently sold only in a 500mL glass bottle. Over the years we have had many requests to produce a smaller, single-dose unit. The new 30mL plastic bottle will be much more convenient for many patients to use, and will, we hope, increase our Renacidin sales, while at the same time reducing shipping costs and breakage. The review of our submission by the FDA has been partially completed, and the new facility in Illinois that will be manufacturing the product for us has already been inspected by the FDA. As far as we know, the only remaining item is their review of our proposed labeling. That was supposed to have been completed in February, but recently we were informed that it may not be finished until June. As a result, we have decided to have our current supplier produce two more batches of product for us, to ensure that we have sufficient inventory to last until we can manufacture the new 30mL bottle. While we had originally expected to receive FDA approval by now, and to be able to begin marketing the new product this year, unfortunately we have no control over the FDA's review process, and there is nothing more we can do until their review is completed.

In the meantime, we are continuing to work with our marketing partners, in particular ASI, to bring new personal care products to the marketplace to supplement our current product line. Over the past couple of years we have been concentrating our R&D efforts on our new Lubrajel "Natural" line, which uses only ingredients that will enable the product to qualify as "natural". The first of these products, our original "Lubrajel Natural", has been certified as natural by Ecocert, a leading industry certification organization for natural and organic products, and is currently being evaluated by customers. We are also working on two additional products for this line. One of them uses natural ingredients from marine sources. The other is a "natural" form of our very successful Lubrajel Oil. We hope to have final formulations of both of these products sampled to all our marketing partners by the end of the second quarter of this year.

In addition to the new products in the Lubrajel Natural line there are a number of other products under development, most of which are intended for the personal care market. We also hope to continue our work with an Australian company that has retained us to formulate a water-based carrier for its proprietary virucidal ingredient. Phase I of this project has already been completed, and we are currently in discussions with them to determine whether to proceed to Phase II. While it is too soon to know whether we will be able to develop a product that is satisfactory to them, our ultimate goal is to manufacture the finished product for them if our development efforts are successful.

Although it was disappointing for us to lose some of our personal care product business in 2014, we are working hard to regain as much of that business as we can, and sales so far in 2015 have been strong. We believe that our core Lubrajel business will continue to grow, particularly in Asia and other developing areas. In addition, by mid-2015 we anticipate that we will receive FDA approval to market the new single-dose form of Renacidin. We are confident that despite the increased competition from some Lubrajel competitors, we will be able to continue to grow our personal care products business, and that 2015 will be another profitable year for us.

Sincerely,

UNITED-GUARDIAN, INC.

Ken Globus
President