



UNITED-GUARDIAN, INC.

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First Quarter 2018 Report to Stockholders

May 23, 2018

Dear Stockholder:

I am pleased to report that the first quarter of 2018 was very strong, with both sales and earnings up significantly over the same quarter last year. Our sales for the quarter were \$3,666,947, a 28% increase over the \$2,872,722 in sales we had in the first quarter of 2017. As a result, net income increased 67% from \$634,435 (\$0.14 per share) to \$1,059,862 (\$0.23 per share). In fact, our earnings per share would actually have been \$0.25 a share had it not been for a new accounting pronouncement that went into effect this year that requires us (and other public companies) to report unrealized gains and losses on equity securities as current income or loss, even though the security is still being held. Until now, unrealized gains and losses have been shown in the "Comprehensive Income" table and did not affect current income for the quarter.

As a result of this accounting change, any quarterly fluctuations in the market value of our equity securities, irrespective of whether they are gains or losses, must now be taken into account when calculating net income or loss for the quarter. In order to minimize the effect that market fluctuations could have in the future on our net income, both positive and negative, we are considering changing a portion of our mutual fund investments to non-equity securities, such as short-term Treasury bonds.

The primary reason for the higher sales and earnings this quarter was a 43% increase in sales of our cosmetic ingredients, including a significant increase in sales of one of our Lubrajel[®] products in China. As many of you will recall, our sales in China had been suspended temporarily between the Fall of 2015 and the Fall of 2016 due to regulatory issues in China that had nothing to do with our product but which affected some of the retail products into which our product was being incorporated. That situation was resolved towards the end of 2016, and since then our sales in China have been strong.

In addition to the increase in sales in China, we have also seen an increase in sales of Renacidin[®] Irrigation, our most important pharmaceutical product. In April 2016 we brought to market a new 30mL single-dose form of that product, which replaced our older 500mL bottle. Sales of this product have been gradually increasing, and in the first quarter of this year we experienced a 23% increase in Renacidin sales compared with the first quarter of last year. We are hoping to expand the sales of Renacidin through a new internet marketing campaign that will commence on June 1st. In anticipation of this we had set up a new web site last year dedicated to Renacidin (www.renacidin.com). The first step in this campaign will be to provide search terms in Google that will cause ads for Renacidin to pop up when someone searches an issue that is related to the uses of Renacidin. The second part of the campaign, which should begin around July, will be to begin advertising on some of the popular medical web sites and forums. While it will take several months to know how successful this new campaign will

be, we believe that there are still many patients and physicians who are not aware of the product, and we are hopeful that this new marketing campaign will get the word out to those people.

As has been the case for the last few years, the main focus of our current R&D efforts has been the development of new cosmetic ingredients for the “natural” cosmetic market. The product with the most immediate potential in this area is our Lubrajel Marine, which is being marketed globally by our largest marketing partner, Ashland Specialty Ingredients (“ASI”). ASI believes that this product has excellent market potential, and it is actively promoting it. We expect sales to increase as more formulators work with the product and bring new finished products to market, which, in the cosmetic industry, can take 1-2 years. The feedback from customers has been very good, and we are hopeful that this product will begin to generate revenue by the end of this year.

In addition to the Lubrajel Marine we are also working on two variations of our very popular Lubrajel Oil. One is a “natural” version that is intended to be used in “natural” cosmetic formulations. The other is a preservative-free version, which will enable formulators to use their own preservatives without having to take into consideration preservatives that we might have used. Both of these products have been in active development for a while, and we hope to have final formulations shortly.

The other cosmetic ingredient that has received positive feedback recently is our Amla Complex, which is a unique product that contains an extract of the Amla fruit (Indian Gooseberry), which has excellent antioxidant properties and is believed to have many health benefits, including improved skin and hair health. This product is still in the development stage, but we are confident that we will be successful in completing the development work, and that we can have it in the hands of our marketing partners by the end of the year.

As a result of the strong first quarter results, as well as strong April and May sales, the Board of Directors, at its meeting on May 16th, declared a \$0.50 per share dividend, which will be paid on June 13th to all stockholders of record as of May 30th. This is the 23rd consecutive year that we have paid a dividend, and we are pleased to be in a position to increase the mid-year dividend from the \$0.42 per share we paid last year to \$0.50 per share, which is comparable to the year-end dividend we paid in December. Our policy in recent years, based on the large cash position we have, has been to pay out a significant percentage of our yearly earnings in dividends, taking into account, or course, any foreseeable capital requirements. We believe that with our large cash and securities holdings we have more than sufficient funds to cover any capital needs that may arise, and that it is in the best interests of the company and its shareholders to pay out any excess cash rather than continuing to increase our cash reserves. I know that many of you have been shareholders of ours for a very long time, and we are very pleased to be able to reward your loyalty by continuing to pay out, and, when possible, to increase, the dividend distributions.

With strong sales in China, new products in the pipeline, and our new marketing effort for Renacidin about to get started, we are excited to see how the year will progress. We are hopeful that the excellent start to the year we had will continue, and we are confident that we will once again have a very profitable year in 2018.

Sincerely,

UNITED-GUARDIAN, INC.



Ken Globus
President