UNITED-GUARDIAN, INC.

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Third Quarter 2018
Report to Stockholders

November 27, 2018

Dear Stockholder:

As a result of strong sales of our cosmetic ingredients, as well as an increase in sales of Renacidin® Irrigation, our most important pharmaceutical product, we had another very profitable quarter, with third quarter sales increasing by 9% from $3,304,489 to $3,599,530 compared with last year's third quarter, and net income increasing by 21% from $1,090,323 ($0.24 a share) to $1,316,524 ($0.29 a share). For the first nine months of the year sales were up 13% from $10,068,868 to $11,407,876, and net income was up 33% from $2,828,907 ($0.62 a share) to $3,769,048 ($0.82 a share), compared with the same period in 2017.

There were two main reasons for the increases in sales and earnings. The first was an increase in sales of our personal care products, in particular our Lubrajel® line of water-based moisturizers and lubricants, which increased by 14% for the third quarter and 17% for the first nine months of the year. Most of that increase was the result of increased purchases by our largest marketing partner, Ashland Specialty Ingredients, which increased its purchases by 35% for the third quarter and 23% for the nine-month period.

A significant portion of Ashland's purchases during the year were intended for shipment to China. In order to minimize the impact of tariffs that were expected to be imposed by China in the third quarter of this year on certain products being brought into China from the U.S., Ashland, in the second quarter, had purchased higher than normal volumes of one of our Lubrajel products that is used to make face masks for the Chinese market. When we were finalizing our second quarter financial results it appeared that the proposed tariffs would impact several shipments of our products that were already on their way to China. In anticipation of that we had agreed with Ashland that we would bear some of the cost of the additional tariffs, and accordingly we put up a reserve in the second quarter to cover approximately one-half of the additional tariffs that were expected to be imposed on those second quarter shipments.

As it turned out, at the last minute our products were removed from the retaliatory tariff list that had been published by China, and we were able to reverse the tariff accrual in the third quarter. As of the date of this letter our products are still not subject to these additional retaliatory tariffs. While we are hopeful that it will stay that way, it is still a fluid situation, and it is possible that if the Trump administration imposes additional tariffs on Chinese products that our products could still be subject to retaliatory tariffs by China in the future.

Also contributing to the increase in sales this year was an increase in sales of Renacidin Irrigation, our proprietary prescription urological product that is used to keep indwelling catheters free from certain calcifications and allows them to be changed less often. A few months ago we began a new web-based marketing campaign for Renacidin, and we are working with our internet consulting company and Google to make sure that our product appears when certain search terms related to indwelling catheters are used. We have also developed “pop-up” ads that should start appearing in the next few weeks. It is still too early to tell how effective our new marketing campaign has been so far, since it will take several months for any increase in sales to translate into additional sales to our distributors. But we are optimistic about the potential impact that this marketing campaign could have by making more patients, physicians, and care-givers aware of the product.

Partially offsetting the increases in sales of our personal care products and Renacidin Irrigation in the third quarter was a reduction in sales of some of our cosmetic ingredients in Korea. Our marketing partner for Korea has informed us that this was due to an ongoing trade dispute between China and Korea that is affecting the ability of some Korean cosmetic manufacturers to export their finished products to China. We are in the process of investigating this situation further so that we can determine what our best course of action will be if this situation continues.

We are currently working closely with Ashland to focus our new product development efforts on products that both we and Ashland believe will have the greatest chance for success from a marketing perspective. Some of these new products are variations on some of our existing products, particularly the Lubrajel line of products, and some of them are completely new products meant to broaden our product line. Ashland is currently in the process of testing some of our recent additions to the Lubrajel line, such as preservative-free and “natural” formulations of our very successful Lubrajel Oil. In addition, we are gradually seeing an increase in sales of our recently-launched Lubrajel Marine, which is a formulation of Lubrajel that contains ingredients from the sea. Ashland has seen a lot of interest in that product, and we are hopeful that we will soon see those sales increase as well. In my annual report to stockholders in April I will have more detailed information on some of the new products that are under development.

As a result of the success we have had with our Lubrajel line of products over the years, we have seen additional competitive products come onto the market, particularly products made by Asian manufacturers that are selling similar products at lower prices. The increasingly crowded marketplace will continue to be a challenge for us, especially with those customers whose main criteria in purchasing raw materials is price rather than quality. To counter that we intend to continue working closely with our marketing partners to remain as competitive and aggressive as possible with our pricing. This includes, when necessary, reducing prices in order to retain existing business or secure new business. We remain optimistic that the extensive range of our product line, along with our reputation for quality and innovation, will enable us to continue to be competitive despite the price advantage that some of the Asian-made products have.

With a number of new products in the development stage, some recently-developed formulations going out to our marketing partners for evaluation, and our plans to expand our joint development work with Ashland, we remain optimistic that will be able to continue to increase sales, and that we will have a successful and profitable end to the year.

Sincerely,

UNITED-GUARDIAN, INC.

Ken Globus

Ken Globus
President

RESULTS FOR THE
THIRD QUARTER ENDED
SEPTEMBER 30, 2018 and SEPTEMBER 30, 2017

STATEMENTS OF INCOME
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30, 2018	THREE MONTHS ENDED SEPTEMBER 30, 2017	NINE MONTHS ENDED SEPTEMBER 30, 2018	NINE MONTHS ENDED SEPTEMBER 30, 2017
Sales:				
Gross sales	$ 3,599,530	$ 3,304,489	$ 11,407,876	$ 10,068,868
Sales allowances and returns	(185,528)	(126,697)	(515,144)	(329,937)
Net Sales	3,414,002	3,177,792	10,892,732	9,738,931
Costs and expenses:				
Cost of sales	1,267,076	1,110,806	4,328,180	4,042,015
Operating expenses	519,330	438,257	1,577,864	1,320,342
Research and development	98,301	159,531	291,250	507,535
Total costs and expenses	1,884,707	1,708,594	6,197,294	5,869,892
Income from operations	1,529,295	1,469,198	4,695,438	3,869,039
Other Income (expense):				
Investment income	38,048	64,054	142,607	185,616
Unrealized loss on marketable securities	(16,183)	---	(56,313)	---
Realized gain on marketable securities	115,328	50,196	2,052	54,302
Loss on trade-in of equipment	---	---	(12,837)	---
Total other income (expense)	137,193	114,250	75,509	239,918
Income before provision for income taxes	1,666,488	1,583,448	4,770,947	4,108,957
Provision for income taxes	349,964	493,125	1,001,899	1,280,050
Net Income	$ 1,316,524	$ 1,090,323	$ 3,769,048	$ 2,828,907
Earnings per common share (Basic and Diluted)	$ 0.29	$ 0.24	$ 0.82	$ 0.62
Weighted average shares – basic and diluted	4,594,319	4,594,319	4,594,319	4,594,319

BALANCE SHEETS*

(condensed)

ASSETS:	SEPTEMBER 30, 2018 (UNAUDITED)	DECEMBER 31, 2017 (AUDITED)
Current assets:	$ 13,244,069	$ 11,850,522
Net property, plant and equipment:	863,772	942,887
Other assets (net):	33,353	59,471
TOTAL ASSETS	$ 14,141,194	$ 12,852,880

LIABILITIES AND STOCKHOLDERS' EQUITY:	SEPTEMBER 30, 2018 (UNAUDITED)	DECEMBER 31, 2017 (AUDITED)
Current liabilities:	$ 1,250,634	$ 1,422,383
Deferred income taxes (net):	22,030	33,855
Stockholders' equity:	12,868,530	11,396,642
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 14,141,194	$12,852,880

* More detailed financial information can be found in the company's Form 10-Q for the third quarter of 2018, which can be found on the company's web site at www.u-g.com.