



# UNITED-GUARDIAN, INC.

Corporate Divisions  
GUARDIAN LABORATORIES

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## **First Quarter 2019 Report to Stockholders**

June 4, 2019

Dear Stockholder:

I am pleased to report that once again we had a very profitable first quarter, with net income increasing by 15% from \$1,059,862 (\$0.23 per share) in the first quarter of 2018 to \$1,222,694 (\$0.27 per share) in this year's first quarter. We were able to accomplish this despite sales declining by 6% from \$3,666,947 last year to \$3,452,894 this year.

There were a number of reasons for the decline in sales in this year's first quarter. First, during last year's first quarter there were some new launches of products containing one or more of our Lubrajel® products, which did not occur in this year's first quarter. Whenever there are new product launches there are pipeline fills that result in a short-term sales increase, with those sales leveling out after the initial launch. In addition, our marketing partner for China, Ashland Specialty Ingredients, has indicated that they are seeing a reduction in demand in China both in general and specifically in the face mask market, which is one of the uses for our products. Some of this may be due to the tariff issues that started last year, which are hurting not only U.S. consumers but the Chinese economy as well. Ashland is seeing an overall slowdown in the Chinese economy, which is impacting many companies selling into China. The good news is that our products are still not subject to the retaliatory tariffs China imposed on many products in response to the tariffs implemented by the Trump administration, which enables us to be more competitive with Asian producers that copy our products and sell them at lower prices.

With China being a big market for our products, we are working closely with Ashland to try to develop some new products that would put us in a stronger position to increase sales. One is a preservative-free formulation of Lubrajel Oil, our best-selling product in China. We began working on such a product last year, and the development work has now been completed. Ashland intends to launch the product in China within the next few months, and shortly thereafter begin marketing the product in other global markets. We are also in the process of developing a lower-cost formulation of Lubrajel which Ashland believes will enable us to recapture some sales we might have lost to customers that need a lower-cost product but may not need all of the properties of our regular Lubrajel products. We have been working on a product like this for a while, since we believe that there are also opportunities for us in India and other emerging economies if we are successful. We hope to have some lower-cost formulations for Ashland's evaluation in the third quarter of this year.

In regard to our pharmaceutical products, first quarter sales of Renacidin® Irrigation, our most important pharmaceutical product, increased by 20% compared with the same period last year. We believe that this increase is at least partially attributable to our new internet marketing campaign, which we started in mid-2018. We recently received an approval from Google that will enable our ads to appear more frequently than they have to date. We are working closely with our internet marketing consultant to monitor the success of this program on a monthly basis, and to modify it as necessary to make sure that our product appears in as many relevant internet searches as possible.

In terms of additional product development, we are continuing to focus on developing natural cosmetic ingredients, which we believe continues to be a growing market. While we have introduced a number of these products over the past few years, we have not yet seen the kind of demand for them that we see with our other Lubrajel products. One of the reasons for this is the difficulty in getting all of the properties and benefits of our regular Lubrajel products using only natural raw materials, which limit our ability to retain all of the Lubrajel characteristics that formulators want. As a result, developing all-natural cosmetic ingredients is much more challenging than developing other products. We are in the process of modifying our approach somewhat to enable us to have more flexibility in product development while retaining as many of the “natural” characteristics as we can.

As a result of the strong financial results for the second half of 2018, along with the positive results for the first quarter, the Board of Directors, at its meeting on May 15, 2019, declared a cash dividend of \$0.55 per share, which will be paid on June 14, 2019 to all stockholders of record as of May 31, 2019. This will be the 24th consecutive year that the company has paid a dividend, and it represents a 10% increase over the mid-year dividend the company paid in 2018. We are pleased to once again be in a position to share our profitability with our shareholders, and believe that it is in the company’s best interest, and the best interests of its shareholders, to continue our policy of paying dividends when it is appropriate to do so.

The market for products like our Lubrajel line of moisturizers and lubricants remains a very competitive one, primarily as a result of competition from the lower-cost Asian producers. While we certainly have lost business to some of those companies, we also are working closely with all of our marketing partners, both in Asia and Europe, to aggressively compete with these lower-cost producers wherever it is feasible to do so. Our efforts to develop a lower-cost Lubrajel product, if successful, will certainly help us to recover some of the business we may have lost to these lower-cost competitors, and, hopefully, to increase our market share. Our products have an excellent reputation in the marketplace, and our marketing partners have told us that there are many companies willing to pay more for our products because of the high standards and quality for which we are known.

With our continuing product development efforts, as well as our push to expand our Renacidin sales, we are optimistic that our second quarter will be a strong one as well, and that we will be able to continue to provide our stockholders with the strong financial results that they have come to expect from us.

Sincerely,

UNITED-GUARDIAN, INC.



Ken Globus  
President

**RESULTS FOR THE  
FIRST QUARTER ENDED  
MARCH 31, 2019 and MARCH 31, 2018**

**STATEMENTS OF INCOME**

(UNAUDITED)

	<b>THREE MONTHS ENDED MARCH 31,</b>	
	<u><b>2019</b></u>	<u><b>2018</b></u>
<b>Sales:</b>		
Gross sales	\$ 3,452,894	\$ 3,666,947
Sales allowances and returns	<u>(170,870)</u>	<u>(147,435)</u>
<b>Net Sales</b>	<u><b>3,282,024</b></u>	<u><b>3,519,512</b></u>
<b>Costs and expenses:</b>		
Cost of sales	1,390,051	1,450,931
Operating expenses	546,962	524,114
Research and development	<u>98,659</u>	<u>101,664</u>
Total costs and expenses	<u><b>2,035,672</b></u>	<u><b>2,076,709</b></u>
<b>Income from operations</b>	<u><b>1,246,352</b></u>	<u><b>1,442,803</b></u>
<b>Other income (expense):</b>		
Investment income	44,167	46,782
Net gain (loss) on marketable securities	257,194	(135,150)
Loss from trade-in of equipment	<u>---</u>	<u>(12,837)</u>
Total other income (expense)	<u><b>301,361</b></u>	<u><b>(101,205)</b></u>
<b>Income before provision for income taxes</b>	<b>1,547,713</b>	<b>1,341,598</b>
<b>Provision for income taxes</b>	<u><b>325,019</b></u>	<u><b>281,736</b></u>
<b>Net income</b>	<b>\$ <u>1,222,694</u></b>	<b>\$ <u>1,059,862</u></b>
<b>Earnings per common share (basic and diluted)</b>	<b>\$ <u>0.27</u></b>	<b>\$ <u>0.23</u></b>
Weighted average shares – basic and diluted	<u><b>4,594,319</b></u>	<u><b>4,594,319</b></u>

**BALANCE SHEETS\***  
(condensed)

<b><u>ASSETS:</u></b>	<b>MARCH 31, 2019</b> (UNAUDITED)	<b>DECEMBER 31, 2018</b> (AUDITED)
<b>Current assets:</b>	\$ 13,141,774	11,687,100
<b>Total property, plant and equipment (net):</b>	802,518	827,925
<b>Other assets (net):</b>	<u>25,941</u>	<u>29,647</u>
<b>TOTAL ASSETS</b>	\$ <u>13,970,233</u>	\$ <u>12,544,672</u>
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY:</u></b>	<b>MARCH 31, 2019</b> (UNAUDITED)	<b>DECEMBER 31, 2018</b> (AUDITED)
<b>Current liabilities:</b>	\$ 1,558,162	1,366,151
<b>Deferred income taxes (net):</b>	264,439	253,583
<b>Stockholders' equity:</b>	<u>12,147,632</u>	<u>10,924,938</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	\$ <u>13,970,233</u>	\$ <u>12,544,672</u>

\* More detailed financial information can be found in the company's Form 10-Q for the first quarter of 2019, which can be found on the company's web site at [www.u-g.com](http://www.u-g.com).