



# UNITED-GUARDIAN, INC.

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## **First Quarter 2014 Report to Stockholders**

June 3, 2014

Dear Stockholder:

The first quarter of 2014 was another successful and profitable one for us, with sales up slightly over last year's very strong first quarter. Earnings for the quarter were also very strong, with net income of \$1,335,753 (\$0.29 per share) compared with \$1,564,649 (\$0.34 per share) for the first quarter of 2013.

While we always strive to increase our earnings each quarter, and it is disappointing to us when we are unable to do so, sometimes there are factors involved that affect earnings but have nothing to do with the company's overall performance in the quarter. For the first quarter, that factor was the discontinuation of the compensation payments that we had been receiving from our current supplier of Renacidin<sup>®</sup> Irrigation, our most important pharmaceutical product. As a result of a production curtailment at our supplier's facility, our inventory of this product was depleted in mid-2012, and we didn't receive new shipments until the end of 2013. As a consequence of this curtailment we entered into a damage settlement agreement with the supplier, which provided us with monthly compensation for lost profits. These payments continued until production was resumed and new supplies of product delivered.

Once we started receiving the new shipments, the compensation payments were phased out, and ended completely at the beginning of the first quarter of 2014. As sales gradually build back up we expect that profits from those sales will once again exceed the compensation payments we had been getting. But that was not yet the case in the first quarter. Sales have resumed more slowly than we had anticipated, but we are optimistic that in time we will attain our historic monthly sales levels. When that happens, our earnings from those sales will once again exceed the compensation payments we had been receiving. While we had received about \$293,000 in compensation payments in the first quarter of 2013, we only received \$24,000 in the first quarter of this year. That is the primary reason why net income was down in the first quarter of this year compared to last year's first quarter.

Despite the ending of the damage settlement payments, we still had a very strong first quarter, with sales of our personal care products, primarily products in our Lubrajel<sup>®</sup> line of water-based moisturizers and lubricants, increasing by 3.4% over last year's first quarter. Sales to our largest marketing partner, Ashland Specialty Ingredients ("ASI"), actually increased by 8.7%, but this was partially offset by lower sales to some of our other European partners. We attribute those lower sales to the continuing economic problems still plaguing some European markets.

As a result of our strong sales and earnings, our balance sheet continued to strengthen, with working capital increasing by \$1,438,178 to \$14,500,044 at March 31, 2014, up from \$13,061,866 at December 31, 2013. Stockholders' equity increased from \$14,235,927 at December 31, 2013 to \$15,630,314 as of March 31, 2014.

We are continuing our efforts to bring new products to market to supplement, and continue to expand, our extensive Lubrajel line of personal care ingredients. Our current focus is on our new Lubrajel "Natural" line, which is a line of water-based moisturizers formulated exclusively with natural ingredients. The first product in this line is already in the hands of our marketing partners and is being sampled globally. It has received approval from Ecocert, a leading industry certifying organization for natural products. The second product in this line, which uses marine-based ingredients, is currently being evaluated by our marketing partners. That product has also received Ecocert certification. We hope to have our marketing partners begin sampling that product shortly.

With development of those first two products in the Lubrajel Natural line nearly complete, we are now focusing our R&D efforts on what we hope will be the third product in that line. This product will be a natural version of our very popular Lubrajel Oil, which is a moisturizer and lubricant that has the feel and viscosity of mineral oil but is water-based rather than oil-based. We are confident that this product will receive Ecocert certification as well.

While our recent development efforts have focused primarily on these new natural products, that does not mean that we have been working on them to the exclusion of other projects. We recently entered into a development agreement with an Australian company that is paying us to develop a new condom lubricant that will be compatible with that company's proprietary virucidal agent. The first stage of that project has been completed, and samples have been sent to the company for evaluation. We are confident that we will be able to develop a satisfactory product for them, and are hopeful we will become their supplier for that product if our development efforts are successful. We are also working closely with ASI to develop some lower-cost products for markets such as India and Eastern Europe, where our current product line may not be cost effective for certain cosmetic manufacturers.

As I have mentioned in many of my previous letters, we are in the process of developing a new 30 mL single-dose form of our Renacidin Irrigation, which will eventually replace our current 500 mL bottle. Our original goal was to file our submission with the FDA by the end of May, but the volume of work involved, both for us and for the company that will be making the product for us, is going to delay our submission by about two months. Our current goal is to complete and submit the application to the FDA by the end of July. We still hope to have FDA approval by the end of the year, but that will depend on a lot of factors that are out of our control. We are working closely with our current supplier to try to project our inventory requirements for the current product as accurately as we can, so that we don't bring in too much or too little inventory. They have assured us that we will be able to get as much inventory as we need to last us until the new product is approved.

As a result of the strong first quarter financial results, the Board of Directors, at its meeting on May 14, 2014, declared a cash dividend of \$0.48 per share, which will be paid on June 13, 2014 to all stockholders of record as of the close of business on May 30, 2014. This is the 19th consecutive year that the company has paid a dividend. The Board continues to believe that distributing a percentage of our profits in the form of a dividend is in the best interests of both the company and its stockholders, and we are pleased to once again be in a position to be able to do so.

With our stock price at record levels it appears that many people share our feelings about the value of our company. Based on the new products currently being sampled to, and evaluated by, our customers and marketing partners, as well as some exciting new products under development, we are optimistic that 2014 will be another profitable year both for us and our stockholders.

Sincerely,

UNITED-GUARDIAN, INC.



Ken Globus  
President