



# UNITED-GUARDIAN, INC.

Corporate Divisions  
GUARDIAN LABORATORIES

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## Second Quarter 2019 Report to Stockholders

August 29, 2019

Dear Stockholder:

Although revenue and income for the second quarter of 2019 were lower than they were in last year's second quarter, we still had a very profitable quarter, with net income of \$1,078,810 (\$0.23 per share) on sales of \$3,279,399. This compares with net income of \$1,392,662 (\$0.30 per share) on sales of \$3,885,887 in the second quarter of 2018. For the first half of this year our net income was \$2,301,504 (\$0.50 per share) on sales of \$6,459,716, compared with net income of \$2,452,524 (\$0.53 per share) on sales of \$7,322,151 for the first six months of 2018.

The primary reason for the decrease in sales this year has been the decline in sales of our cosmetic ingredients in China. This has been due in part to weakening demand in China for face mask products, which has been one of the main uses for our Lubrajel<sup>®</sup> products in China. From what we have been told by our marketing partner in China, Ashland Specialty Products, this reduced demand in China for face mask products may be the result of the general slowing of the Chinese economy, and we are hopeful that this will pick up again when the Chinese economy improves. It is too soon to know how long this economic slowdown in China will last, and that is probably somewhat dependent on whether the trade war being waged by the Trump administration continues. As of now our products have not been impacted by the tariffs that have been imposed by China in retaliation for the tariffs imposed by the Trump Administration, and as far as we know our products are not on the most recent tariff list published by China. But that could change if additional tariffs are imposed by the Trump Administration.

Our sales into China have also been impacted by competition with similar products being marketed at lower prices by Asian manufacturers. We are working closely with Ashland to enable us to be more competitive with these lower-cost products, and Ashland had indicated that there is an opportunity for us to recover some of the business we have lost to these lower-cost competitors based on some new pricing we have worked out with Ashland that will enable us to be more competitive. We are also working closely with our raw material suppliers to keep our production costs as low as possible. We are hopeful that we will be able to recover some of the business we may have lost to these lower-cost competitors, but this, too, may depend on what happens with the current trade war.

Another reason for the lower sales for the first half of this year has been the reduction in sales of our products into Korea. Over the past few years we have seen our sales in Korea decline, and although we do have a competitive situation in Korea similar to what we have in China, we believe that our reduced sales there may be attributable more to the marketing efforts being made there on our behalf. As a result, we have decided to terminate our existing marketing relationship in Korea, and turn that territory over to Ashland, which we believe will provide us with a stronger marketing effort. There will be a gradual transition to Ashland over the next few months, with a complete phaseout of our current marketing partner by the end of the year.

We are hopeful that Ashland will be able to recover some of the business we have lost, as well as generate new business for us in Korea based on their stronger market presence.

On a positive note, sales of our most important pharmaceutical product, Renacidin® Irrigating Solution, have increased 17% so far this year, which we believe is the result of the internet marketing campaign that we began last year. That increase has helped to offset some of the reduced sales of our cosmetic ingredients. We will have more information on the effectiveness of our Renacidin internet marketing campaign by the end of the year, at which time we will decide whether to continue the current plan or make some modifications. For now, we are very pleased with the results we are seeing, and are hopeful that this increase in sales will continue.

In terms of product development, we are continuing to work closely with our marketing partners, in particular Ashland, to test some of the new products on which we are working, and have invested in some new equipment that will enable us to do a lot of the testing in house that in the past had to be done by Ashland or outside laboratories. We believe that this will speed up the development process and enable us to react more quickly to modifications that are requested by our marketing partners. Currently a number of new products are being tested by Ashland for the various properties we know customers are looking for, such as moisturization, lubricity, and rheology modification, and based on the feedback we get we will determine which products are ready for marketing and which need more development work. We are still putting a lot of our R&D effort behind the development of new natural products, such as our new Lubrajel Oil Natural, which will be an all-natural formulation of our very popular Lubrajel Oil, which is a low viscosity variation of Lubrajel that has excellent moisturizing properties, high lubricity, and has the consistency of mineral oil but is water-based. Our regular Lubrajel Oil is the product that has experienced the highest demand China, and we believe that the natural formulation of Lubrajel Oil has excellent marketing potential.

Another product that we feel would be an excellent addition to our Lubrajel line is a preservative-free version of Lubrajel Oil, which is similar to the current formulation of Lubrajel oil but contains no preservatives. This allows customers to use their preferred preservatives without having to take into account the preservatives in our products. Demand for our original preservative-free product, Lubrajel PF, has been steadily increasing, which leads us to believe that there will be a market for the preservative-free version of Lubrajel Oil as well.

We are also continuing to work on a lower-cost Lubrajel that may put us in a better position to attain market share in places where the current prices of our products are not competitive, such as in India and South America. We are hopeful that if we are successful in this development work, we may be able to acquire new customers in countries that until now have been difficult markets for us. We are hoping to have some formulations ready for testing by Ashland by the end of the year.

There are a number of other R&D projects on which we are working, and we expect to continue sampling new products to our marketing partners as quickly as we can. As always, we are working with all of our marketing partners to try to determine what products would be of interest to their customers, which is always the most difficult part of product development. We have a small but productive group of R&D chemists with good ideas and a lot of experience, and we are optimistic that we can continue to bring new and innovative products to the marketplace.

Sincerely,

UNITED-GUARDIAN, INC.



Ken Globus  
President

**RESULTS FOR THE  
SECOND QUARTER AND SIX-MONTH PERIODS  
ENDED JUNE 30, 2019 AND JUNE 30, 2018**

**STATEMENTS OF INCOME**  
(UNAUDITED)

	<b>THREE MONTHS ENDED JUNE 30,</b>		<b>SIX MONTHS ENDED JUNE 30,</b>	
	<b><u>2019</u></b>	<b><u>2018</u></b>	<b><u>2019</u></b>	<b><u>2018</u></b>
<b>Net sales</b>	\$ <u>3,279,399</u>	\$ <u>3,885,887</u>	\$ <u>6,459,716</u>	\$ <u>7,322,151</u>
<b>Costs and expenses:</b>				
Cost of sales	1,467,323	1,536,842	2,755,668	2,904,525
Operating expenses	502,094	534,420	1,049,056	1,058,534
Research and development expense	<u>93,846</u>	<u>91,285</u>	<u>192,504</u>	<u>192,949</u>
<b>Total costs and expenses</b>	<u>2,063,263</u>	<u>2,162,547</u>	<u>3,997,228</u>	<u>4,156,008</u>
<b>Income from operations</b>	<u>1,216,136</u>	<u>1,723,340</u>	<u>2,462,488</u>	<u>3,166,143</u>
<b>Other income (expense):</b>				
Investment income	49,941	57,777	94,108	104,559
Net gain (loss) on marketable securities	86,849	(18,256)	344,043	(153,406)
Loss on trade-in of equipment	<u>---</u>	<u>---</u>	<u>---</u>	<u>(12,837)</u>
<b>Total other income (expense)</b>	<u>136,790</u>	<u>39,521</u>	<u>438,151</u>	<u>(61,684)</u>
<b>Income before provision for income taxes</b>	1,352,926	1,762,861	2,900,639	3,104,459
<b>Provision for income taxes</b>	<u>274,116</u>	<u>370,199</u>	<u>599,135</u>	<u>651,935</u>
<b>NET INCOME</b>	\$ <u>1,078,810</u>	\$ <u>1,392,662</u>	\$ <u>2,301,504</u>	\$ <u>2,452,524</u>
<b>Earnings per common share</b> (Basic and Diluted)	\$ <u>0.23</u>	\$ <u>0.30</u>	\$ <u>0.50</u>	\$ <u>0.53</u>
<b>Weighted average shares</b> (Basic and Diluted)	<u>4,594,319</u>	<u>4,594,319</u>	<u>4,594,319</u>	<u>4,594,319</u>

# **BALANCE SHEETS\***

(condensed)

<b><u>ASSETS:</u></b>	<b>JUNE 30, <u>2019</u></b> (UNAUDITED)	<b>JUNE 30, <u>2018</u></b> (AUDITED)
<b>Current assets</b>	\$ 11,697,927	\$ 11,687,100
<b>Total property, plant and equipment (net)</b>	7,308,411	7,276,756
<b>Other assets (net)</b>	<u>22,235</u>	<u>29,647</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>12,502,944</u></b>	<b>\$ <u>12,544,672</u></b>
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY:</u></b>	<b>JUNE 30, <u>2019</u></b> (UNAUDITED)	<b>JUNE 30, <u>2018</u></b> (AUDITED)
<b>Current liabilities</b>	\$ 1,594,867	\$ 1,366,151
<b>Deferred income taxes (net)</b>	208,511	253,583
<b>Stockholders' equity</b>	<u>10,699,566</u>	<u>10,924,938</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ <u>12,502,944</u></b>	<b>\$ <u>12,544,672</u></b>

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