



UNITED-GUARDIAN, INC.

Corporate Divisions
GUARDIAN LABORATORIES

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Third Quarter 2020 Report to Stockholders

December 1, 2020

Dear Stockholder:

With the recent successful testing of multiple coronavirus vaccines, it appears that there may finally be a light at the end of the very long coronavirus tunnel. Despite the economic obstacles that we have all been dealing with, we were still able to finish the third quarter without any additional negative impact from the global pandemic beyond what we had already anticipated. With the global economy still suffering from the pandemic, we were not surprised to see reduced sales in the third quarter, and we anticipate that the same will be true for the fourth quarter. In spite of that we still had a profitable quarter, and are thankful that the impact on us has not been as devastating as it has been on so many other companies.

As a result of the impact of the virus, sales for the third quarter decreased by approximately 30%, from \$3,317,370 in 2019 to \$2,336,360 this year. Net income for the quarter decreased from \$1,069,871 (\$0.23 per share) in 2019 to \$717,532 (\$0.16 per share) this year. For the first nine months of the year, sales decreased approximately 12%, from \$9,777,086 in 2019 to \$8,613,918 this year, and net income for the nine-month period decreased from \$3,371,375 (\$0.73 per share) in 2019 to \$2,694,450 (\$0.59 per share) this year.

The decline in sales in the third quarter was due primarily to an excess inventory situation that continues to hinder our ability to increase sales in China, an important market for us over the past few years. When the pandemic started earlier this year, Ashland Specialty Ingredients (“ASI”), our largest marketing partner, placed additional orders for product for distribution in China in anticipation of a possible disruption in supply. Because we are considered an “essential business” due to our pharmaceutical production, we have been able to continue operating, even during the height of the pandemic. As demand in China gradually decreased due to the pandemic, ASI found itself with a significant amount of excess inventory that had been earmarked for China. Although ASI’s sales into China have continued during this time, they have been at a reduced level, thereby increasing that time that it will take them to work off the excess inventory. Over the past few months we have started to see an increase in orders from ASI, and they have informed us that they are optimistic that sales are going to gradually increase, and that the excess inventory situation will be resolved by the end of the first quarter of 2021.

In addition to the coronavirus pandemic, our sales have also been impacted by strong competition from lower-priced competitive products, especially from Asian manufacturers, which has impacted sales not only in Asia but in Europe as well. We are working closely with our marketing partners to be as competitive as we can in order to retain, and hopefully increase, our sales, despite the very competitive marketplace.

One bright spot in the revenue picture during this pandemic has been the sales of our pharmaceutical products, which have remained strong. Sales of Renacidin® Irrigation, our most important pharmaceutical product, have increased approximately 7% this year, despite the pandemic. We are continuing our internet marketing efforts for that product, and we have been pleased with the activity generated from our Google ads and our dedicated Renacidin website.

In regard to our other pharmaceutical product, Clorpactin® WCS-90, a product which has maintained a steady sales level for many years, we were contacted a few months ago by a humanitarian organization that currently works with 368 hospitals in 56 countries to provide training, surgical instruments, and implants to orthopedic surgeons in underdeveloped countries to treat bone fractures. Many patients in those areas, particularly children, do not receive treatment for those injuries, which in many cases results in severe lifelong disabilities. They have been looking for a product that the surgeons can use for disinfection during surgery, and they contacted us about the possibility of using Clorpactin for this purpose. They would purchase the product in the U.S., and then ship it to hospitals around the world where it is needed.

While we are only in the very early stages of this project, and there are no guarantees that it will go forward, we are excited about the chance to work with this organization, which has made such a difference in so many lives around the world. We are currently working with them to determine Clorpactin's ability to withstand the various temperatures that the product would be exposed to if it is shipped around the world, especially to warm climates like Africa. They have shipped temperature sensors to various part of the world to accumulate temperature data, while at the same time we are doing our own testing to determine the stability of the product when it is exposed to high temperatures for short periods of time. Once the testing is completed, they will make a determination as to whether the product will be suitable for their purposes. We are hopeful that the testing results will be positive, and that they will decide to go forward with the project.

In terms of other ongoing R&D efforts, we are continuing to work closely with our marketing partners in the development of new cosmetic ingredients, and we have a number of products that should be coming to market soon. Our Lubrajel® Marine, which has been on the market for a couple of years but has not yet achieved significant sales, will be introduced into Asia shortly, which we hope will stir sales. ASI has just launched the preservative-free formulation of our very successful Lubrajel Oil in Asia, and plans to launch it globally in the near future, showcasing its excellent texture and hydrating properties. They will also be launching a new preservative-free version of our Lubrajel II XD, which we developed for the Asian market where the types of preservatives used in a cosmetic ingredient are important factors in the ability to market those products. We are hopeful that this new product will help us to reinvigorate our sales in Asia, and in particular, in Korea.

We are also working closely with ASI on a modification of Lubrajel Oil Natural, a formulation of Lubrajel Oil using natural ingredients, which originally did not have the hydrating qualities that ASI wanted. We have now completed the reformulation, the goal of which was to enable the product to provide the eight hours of hydration that ASI was hoping to achieve. That product will undergo hydration testing by ASI in January. These are just a few of the new cosmetic ingredients on which we are working.

On November 18th a meeting of the company's Board of Directors was held, and the Board discussed whether or not the company should issue a year-end dividend. With our sales significantly impacted by the coronavirus in the third quarter, and expected to be so again in the fourth quarter, it was not an easy decision this year. However, the third quarter was still a profitable one, and our projections are that the fourth quarter will be profitable as well. With strong sales of Renacidin, along with the Board's optimism that our continuing development work will result in an increase in sales next year, it was decided that the payment of a dividend, albeit a reduced one, would be appropriate. Accordingly, the Board declared a dividend of \$0.36 per share, which will be paid on December 8th to all shareholders of record on December 1st. While there are many companies that have decided not to pay a dividend this year because of the pandemic, the Board felt that it would be in the best interests of the company and its stockholders to pay a dividend, even if it is a reduced one, and that doing so would not in any way negatively impact our ability to fund our continuing R&D work or any foreseeable capital projects.

As has been the case over the past two quarters, there are still a lot of uncertainties associated with the coronavirus pandemic, and it would be foolish of us to try to predict exactly when our sales will begin to increase and what that increase might be. With Asian economies in general handling the pandemic better than the U.S. and Europe, we are hopeful that we will begin to see increased demand for our products as production of cosmetic ingredients begins to increase. In the U.S., much will depend on how successful the new Biden administration will be in getting the virus under control, as well as the success of the vaccination program that is expected to begin in December. If those efforts are successful, I am optimistic that we will see an increase in sales by the second half of 2021. At that point the worst should be behind us, and I am hopeful that by this time next year the world should be a very different, and much more enjoyable, place for all of us.

Sincerely,

UNITED-GUARDIAN, INC.

A handwritten signature in black ink that reads "Ken Globus". The signature is written in a cursive, flowing style.

Ken Globus
President

**FINANCIAL RESULTS
FOR THE
THREE AND NINE MONTHS
ENDED
SEPTEMBER 30, 2020 AND SEPTEMBER 30, 2019**

STATEMENTS OF INCOME
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Net Sales	\$ <u>2,336,360</u>	\$ <u>3,317,370</u>	\$ <u>8,613,918</u>	\$ <u>9,777,086</u>
Costs and expenses:				
Cost of sales	974,763	1,386,948	3,634,528	4,142,616
Operating expenses	493,204	544,176	1,520,114	1,593,232
Research and development	<u>114,836</u>	<u>104,800</u>	<u>331,134</u>	<u>297,304</u>
Total costs and expenses	<u>1,582,803</u>	<u>2,035,924</u>	<u>5,485,776</u>	<u>6,033,152</u>
Income from operations	<u>753,557</u>	<u>1,281,446</u>	<u>3,128,142</u>	<u>3,743,934</u>
Other Income:				
Investment income	38,932	47,320	131,318	141,428
Net gain on marketable securities	<u>113,248</u>	<u>25,499</u>	<u>143,832</u>	<u>369,542</u>
Total other income	<u>152,180</u>	<u>72,819</u>	<u>275,150</u>	<u>510,970</u>
Income before provision for income taxes	905,737	1,354,265	3,403,292	4,254,904
Provision for income taxes	<u>188,205</u>	<u>284,394</u>	<u>708,842</u>	<u>883,529</u>
Net Income	\$ <u>717,532</u>	\$ <u>1,069,871</u>	\$ <u>2,694,450</u>	\$ <u>3,371,375</u>
Earnings per common share (Basic and Diluted)	\$ <u>0.16</u>	\$ <u>0.23</u>	\$ <u>0.59</u>	\$ <u>0.73</u>
Weighted average shares – basic and diluted	4,594,319	4,594,319	4,594,319	4,594,319

BALANCE SHEETS*

(condensed)

<u>ASSETS:</u>	SEPTEMBER 30, <u>2020</u> (UNAUDITED)	DECEMBER 31, <u>2019</u> (AUDITED)
Current assets	\$ 12,147,983	\$ 11,567,281
Property, plant, and equipment	7,415,962	7,390,525
Less: Accumulated depreciation	<u>6,720,369</u>	<u>6,609,818</u>
Net property, plant and equipment	695,593	780,707
Other assets (net)	<u>3,706</u>	<u>14,824</u>
TOTAL ASSETS	\$ <u>12,847,282</u>	\$ <u>12,362,812</u>

<u>LIABILITIES AND STOCKHOLDERS' EQUITY:</u>	SEPTEMBER 30, <u>2020</u> (UNAUDITED)	DECEMBER 31, <u>2019</u> (AUDITED)
Current liabilities	\$ 1,217,820	\$ 1,343,059
Deferred income taxes (net)	231,728	386,855
Stockholders' equity	<u>11,397,734</u>	<u>10,632,898</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ <u>12,847,282</u>	\$ <u>12,362,812</u>

* More detailed financial information can be found in the company's Form 10-Q for the third quarter of 2020, which can be found on the company's web site at www.u-g.com.