



UNITED-GUARDIAN, INC.

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GUARDIAN LABORATORIES

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First Quarter 2013 Report to Stockholders

June 4, 2013

Dear Stockholder:

I am pleased to report that the first quarter of 2013 was another strong one, with earnings reaching record levels and sales just short of that. Earnings for the quarter were \$1,564,649 (\$0.34 per share) compared with \$1,228,630 (\$0.27 per share) for the first quarter of 2012, an increase of 27%. Sales increased 1.6% from \$3,888,692 in 2012 to \$3,952,161 this year.

What made this quarter particularly satisfying is that we were able to attain this level of sales and earnings despite the fact that there were no sales of our largest pharmaceutical product, Renacidin[®] Irrigation (which I will discuss in more detail later in this letter). However, much of that lost revenue was made up through increased sales of our personal care products, in particular our Lubrajel line of water-based moisturizers and lubricants. Sales of those products increased 14% in the first quarter, primarily due to increased sales to our largest marketing partner, Ashland Specialty Ingredients. Sales of our medical products also increased, and while that increase may have been due at least in part to the timing of orders, we do expect sales of those products to increase as demand increases for our Lubrajel TF, a new medical lubricant that we developed at the request of a global medical products company. Sales of that product are just getting started, and we are hopeful that we will see increased sales to that customer over the next few years.

Our record earnings also contributed to a further strengthening of our balance sheet, with working capital increasing from \$11,795,895 as of December 31, 2012 to \$13,409,225 at the end of the first quarter of 2013, and stockholders' equity increasing from \$12,838,018 to \$14,419,347.

In regard to new product development we are continuing to actively pursue the development of new and unique personal care products, with our focus now on additions to our new Lubrajel "Natural" line. We recently introduced the first product in that line, and it is being evaluated by potential customers. It has already received approval from Ecocert, a leading global certifying agency for "natural" products. Based on recent meetings with our global marketing partners we continue to believe that the market for "natural" cosmetic products will continue to grow, and for that reason much of our research & development efforts right now are focusing on the development of additional products for that line. One such product that we are working on right now is a moisturizing gel based on natural marine sources. Our goal is to have a number of different products in this line, all of which will be developed with Ecocert certification in mind.

In previous letters I have mentioned that we had a new customer for the clear, non-foaming, highly lubricating shaving gel that we developed many years ago. That customer was interested in bringing this product to market as a high-end shaving gel. Although his efforts to date have only resulted in minimal sales, he recently informed us that the product has been accepted for a

market test by a major drugstore chain. If the test goes well we may finally begin to see orders for this product, and there is the possibility of a second product in the future.

As I mentioned previously, there were no sales of Renacidin in this quarter due to the continuing production curtailment by our current supplier. We have not had product to sell since August 2012. We are continuing to work closely with that supplier to resume production as quickly as possible, and we are hopeful that will happen in the fourth quarter of this year. As a result of those production problems we entered into a settlement agreement with them that has provided compensation to us for each month that we have been without product. That has helped to offset most of the profits we lost. Those payments will continue until either they go back into production or until January 2014, when our contract with them ends, whichever comes first. So while the lack of Renacidin inventory to sell has negatively impacted our sales figures, the impact on our earnings has not been as significant.

Concurrent with our efforts to restart Renacidin production with our existing supplier we have also been working closely with Smiths Medical, a global Ohio-based provider of medical devices and part of Smiths Group plc, a London-based global technology company listed on the London Stock Exchange, to manufacture Renacidin in a new 30mL single-dose plastic bottle. This will replace our current 500mL glass bottle. We believe that this new bottle has the potential to significantly increase our revenue from Renacidin. A mold is now being fabricated, and we anticipate having validation runs completed by the end of the third quarter of this year, and the FDA submission filed by the end of the year. If all goes well we hope to have approval of the submission in the first quarter of 2014, and product on the market in the second quarter of 2014. We are cautiously optimistic that our current supplier will be able to resume production, and that they will do so in time for us to bring in sufficient inventory to last us until the new bottle is available.

In May our stock reached a new high of over \$28 a share, and as of the date of this letter (ex dividend) it has settled back into the \$25-26 per share range. We believe that the strength of our stock price has been a direct result of the steady increase in our earnings and dividend payments, and we are hopeful that this trend will continue. As a result of the strong first quarter financial results the Board of Directors, at its meeting on May 15th, authorized the payment of a \$0.47 per share dividend, which will be paid on June 14, 2013 to all stockholders of record as of May 30, 2013. This is a 12% increase over the \$0.42 per share mid-year dividend we paid in June 2012. It also represents the 18th consecutive year that we have paid a dividend. The Board continues to believe that it is in the best interests of the company and its stockholders to continue our policy of distributing some of our profits to our shareholders when the earnings are sufficient to do so, and we hope to be able to continue to do so in the future.

It has been a good start to the year, and I am especially pleased that sales of our other product lines have been able to make up for the loss of Renacidin sales. Once those sales resume we should see a significant increase in revenue from our pharmaceutical products, and this should increase even further when our new single-dose bottle comes to market next year. At the same time we will continue working closely with our personal care marketing partners to bring new and innovative products to the personal care products market, and to expand the market for our existing personal care and medical products.

Sincerely,

UNITED-GUARDIAN, INC.



Ken Globus
President

**RESULTS FOR THE FIRST QUARTER ENDED
MARCH 31, 2013 and MARCH 31, 2012***

INCOME STATEMENTS

	THREE MONTHS ENDED MARCH 31,	
	<u>2013</u>	<u>2012</u>
Net sales	\$ 3,952,161	\$ 3,888,692
Costs and expenses	<u>1,972,724</u>	<u>2,142,703</u>
Income from operations	1,979,437	1,745,989
Other income	<u>347,012</u>	<u>72,341</u>
Income before income taxes	2,326,449	1,818,330
Provision for income taxes	<u>761,800</u>	<u>589,700</u>
Net income	\$ <u>1,564,649</u>	\$ <u>1,228,630</u>
Earnings per common share (Basic and Diluted)	\$ <u>0.34</u>	\$ <u>0.27</u>
Weighted average shares – basic and diluted	4,596,439	4,596,439

BALANCE SHEETS

<u>ASSETS</u>	<u>MARCH 31, 2013</u>	<u>DECEMBER 31, 2012</u> (AUDITED)
Current assets	\$ 15,091,103	\$ 12,623,403
Property, plant and equipment, net of depreciation	<u>1,212,894</u>	<u>1,235,863</u>
TOTAL ASSETS	\$ <u>16,303,997</u>	\$ <u>13,859,266</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>	<u>MARCH 31, 2013</u>	<u>DECEMBER 31, 2012</u> (AUDITED)
Current liabilities	\$ 1,681,878	\$ 827,508
Deferred income taxes	202,772	193,740
Stockholders' equity	<u>14,419,347</u>	<u>12,838,018</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ <u>16,303,997</u>	\$ <u>13,859,266</u>

* Financial results are unaudited unless indicated otherwise.