



UNITED-GUARDIAN, INC.

Corporate Divisions
GUARDIAN LABORATORIES

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First Quarter 2010 Report to Stockholders

June 4, 2010

Dear Stockholder:

Once again we had a strong start to the year, despite the continuing weakness of the U.S. and European economies. Sales for the first quarter were down about 8% from last year from \$3,895,143 to \$3,576,915, but this was primarily the result of a temporary suspension of sales to one of the company's medical products customers, which had purchased unusually large volumes of product in the first half of 2009 to build-up its inventory prior to relocating its manufacturing facility to Mexico. Those sales are expected to return to normal levels during the rest of the year.

Despite the decrease in sales, our earnings for the quarter were a very strong \$0.22 per share, which was just \$0.01 shy of our quarterly record. We were able to achieve this in part by continuing our successful efforts to keep raw material and administrative costs as low as possible. Although we will always be subject to market fluctuations over which we have no control, we have been able to work with our suppliers to ensure that we get the best pricing possible on our most significant raw materials.

Overall, sales of our personal care products declined by about 6% for the quarter, with sales to our largest marketing partner, International Specialty Products ("ISP"), down about 11%. The decline in sales to ISP was partially offset by an increase in sales to some of our other marketing partners in Europe. We believe that the decline in sales to ISP was due primarily to inventory levels and the timing of orders, rather than any significant decline in business. Based on information provided to us by ISP, we expect sales to ISP to increase slightly this year. They are continuing to expand their marketing efforts, particularly in Eastern Europe and Asia, where they continue to find new customers, despite competition from local suppliers. Our other European marketing partners have indicated that activity in the first quarter of 2010 was up significantly compared with the last six months of 2009, and it is their expectation that sales will continue to improve this year compared with 2009, barring any unforeseen negative economic events.

In April we met with our European marketing partners at the annual In-Cosmetics convention, which is a gathering of all of the major personal care product suppliers and their customers. We received some very useful information in regard to the types of personal care ingredients that customers might be interested in, and we left there with new insight as to where we might want to concentrate future R&D efforts. Based on that information, we have now initiated two new R&D projects, and expect to be devoting significant research efforts to these projects for the next year or so. Deciding what new products to develop has always been difficult, since customers rarely give a clear indication of what they want, and many times really don't know what they want and

are waiting for suppliers to present them with new and novel ingredients. But based on the information we received, and taking into account current market trends, we believe that there are some exciting possibilities for us, and we are looking forward to expanding our product offerings into new areas.

We are continuing to work with our marketing partners on the promotion of some of the products that we introduced last year. One of them in particular, our new natural emulsifier, looks like it may have significant market potential, and based on that we expect to be filing European as well as U.S. patents, which is something that we have never done before. It is still too early to tell what the potential is for that product, but we think we have something unique in the marketplace, and are hopeful that we will soon begin to see demand for that product, as well as the other products we introduced last year, as customers continue to evaluate them.

On May 13th we announced that the Board of Directors, at its meeting on May 12th, had declared a semi-annual cash dividend of \$0.30 per share, which will be paid on June 11, 2010 to all stockholders of record as of the close of business on May 27, 2010. This represents a 7% increase over the \$0.28 per share that was paid in the first half of 2009. This is now the 15th consecutive year the we have paid a dividend. Once again we are very pleased to be in a position to share our success with our stockholders.

Some of you may have seen a press release that was issued by the company on May 18th announcing the repurchase by the company of some of my company stock. Before we entered into this transaction a special committee of outside directors was formed to determine whether or not it was in the best interests of the company to do this, and, if so, to determine a fair price and negotiate the terms of the sale. It was always my goal, as well as the goal of the special committee and the full Board of Directors, to ensure that the transaction was fair to the company and that the process was handled properly. In furtherance of that goal, the special committee retained outside legal counsel as well as the services of an experienced investment banking firm, which gave the special committee an objective opinion as to the fairness of the proposed transaction to the company. Based on that information, we came to an agreement on a discounted price that we felt was fair to both me and the company. The sale was completed on May 28th. If you would like more detailed information on the transaction, the press release is posted on our web site (www.u-g.com), and additional documentation is available on the SEC's web site.

I would like to make clear that my sale of this stock (which constituted about 18% of the company stock that I beneficially own or control) was done solely for estate planning purposes. I continue to be the company's largest stockholder, and am as dedicated as ever to the long-term success of the company. I continue to be confident about the future prospects for the company, and excited about some of the new projects on which we will be concentrating over the next few years. With a strong start to 2010 I am optimistic that we will be able to continue to develop new and exciting products for the personal care and medical markets, and that this will be another very profitable year for us.

Sincerely,

UNITED-GUARDIAN, INC.



Ken Globus
President

**RESULTS FOR THE FIRST QUARTER ENDED
MARCH 31, 2010 and MARCH 31, 2009**

INCOME STATEMENTS

| | THREE MONTHS ENDED MARCH 31, | |
|---|---|---------------------|
| | <u>2010</u> | <u>2009</u> |
| Net sales | \$ 3,576,915 | \$ 3,895,143 |
| Costs and expenses | <u>2,032,616</u> | <u>2,256,304</u> |
| Income from operations | 1,544,299 | 1,638,839 |
| Other income | <u>92,270</u> | <u>91,602</u> |
| Income from operations before income taxes | 1,636,569 | 1,730,441 |
| Provision for income taxes | <u>540,725</u> | <u>575,200</u> |
| Net Income | \$ <u>1,095,844</u> | \$ <u>1,155,241</u> |
| Earnings per common share (basic and diluted): | \$ <u>.22</u> | \$ <u>.23</u> |
| Weighted average shares – basic and diluted | <u>4,946,439</u> | <u>4,946,439</u> |

BALANCE SHEETS

| <u>ASSETS</u> | MARCH 31, <u>2010</u> | DECEMBER 31, <u>2009</u> |
|---|----------------------------------|-------------------------------------|
| | (UNAUDITED) | |
| Current assets | \$ 17,678,398 | \$ 17,656,565 |
| Property, plant and equipment, net | 1,016,349 | 946,711 |
| Other assets | <u>103,598</u> | <u>113,016</u> |
| TOTAL ASSETS | \$ <u>18,798,345</u> | \$ <u>18,716,292</u> |
| <u>LIABILITIES AND STOCKHOLDERS' EQUITY</u> | | |
| Total current liabilities | \$ 1,866,721 | \$ 2,920,674 |
| Deferred income taxes | 151,927 | 138,007 |
| Stockholders' equity | <u>16,779,697</u> | <u>15,657,611</u> |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ <u>18,798,345</u> | \$ <u>18,716,292</u> |

** More detailed financial information can be found at the company's web site at www.u-g.com.**