



# UNITED-GUARDIAN, INC.

Corporate Divisions  
GUARDIAN LABORATORIES

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## **First Quarter 2012 Report to Stockholders**

June 6, 2012

Dear Stockholder:

The first quarter of 2012 was another very profitable one for us, with sales increasing from \$3,642,049 in the first quarter of 2011 to \$3,888,692 in the first quarter of this year, an increase of 6.8%. Our net income after taxes increased from \$1,166,183 (\$0.25 per share) in the first quarter of 2011 to \$1,228,630 (\$0.27 per share) this year. Our financial strength continued to grow as well, with stockholders' equity reaching \$15.4 million at the end of the first quarter of this year, an increase of 9% over the 2011 year-end figure. Working capital increased by \$1,323,874 from \$12,895,448 at December 31, 2011 to \$14,219,322 as of March 31, 2012.

The primary reason for the increase in sales in the first quarter of this year compared with the first quarter of 2011 was a 5% increase in the sales of our personal care products, primarily our Lubrajel<sup>®</sup> line of water-based moisturizing and lubricating gels. Sales to our largest marketing partner, Ashland Specialty Ingredients, actually increased by almost 7%, but this was partially offset by reduced sales to some of our other distributors, primarily in Europe, where the unsettled economic conditions are still negatively impacting sales.

Sales of our pharmaceutical products were up substantially over last year's first quarter, but this was due to the fact that in the first quarter of 2011 we had very limited supplies of Renacidin<sup>®</sup> Irrigation, our largest pharmaceutical product. This was the result of a temporary curtailment of production at the facility where the product is made. We were compensated by our supplier for the losses we sustained during that time, but that reimbursement did not take place until the second quarter of last year. We are now considering changing our supplier for that product, since we are once again experiencing delays in production. Long term we are going to either change to a different production facility if we stay with our current supplier, or we will have to replace them with a more reliable supplier. We are in the process of assessing both options.

Sales of our medical (non-pharmaceutical) products were lower in this year's first quarter, but we believe this was due primarily to the timing of orders. We recently completed work on Lubrajel TF, a new medical lubricating gel that we developed at the request of a global medical products company. We just supplied them with an initial pilot batch, and expect to see more significant orders soon. We are hopeful this may lead to other business with them as well.

We are continuing to actively pursue the development of new and unique products, primarily for the cosmetic and medical products markets. Our most significant development project at the present time is for our new Lubrajel "Natural" line. I am happy to report that just this week we received approval from Ecocert, a leading global certifying agency for "natural" products, for our first Lubrajel Natural formulation. That formulation is currently being evaluated by our marketing partners. We have also applied for approval from another certifying agency, the Natural Products Organization. We hope to add several products to this new line over the next few years.

Those of you who have been our stockholders for a while may remember that many years ago we developed a clear, non-foaming, highly lubricating shaving gel that we sold directly to consumers over the internet. Sales were not significant enough to continuing marketing that product, but last year we received an inquiry from a new customer that was very interested in marketing it again. We made some modifications based on their requirements, and they plan to promote the product as a high-end shaving gel. While there is no way for us to know whether or not they are going to be successful, they seem determined to make the product a success, and we hope to make an initial shipment to them shortly.

We are also continuing our development efforts on a new thickener for cosmetic products that use vegetable oils as their base. Our goal is to develop an ingredient that will thicken those products while maintaining their clarity. We believe that there is no other product on the market that can do this. Although this is not the first time we have endeavored to develop a product with these characteristics, we believe that there is a very significant market for it, and decided that it would be worthwhile to devote some of our R&D effort into this area of product development.

As our earnings have continued to increase, so has our stock price. As of the date of this letter our stock is about \$22 a share. In the past three years our stock price has almost tripled. We are pleased that the stock price has continued to rise as our earnings and dividend payments have increased, which, we believe, is the way it should be.

As a result of our strong first quarter results, as well as our anticipation that our second quarter results will be strong as well, the Board of Directors, at its meeting on May 16th, declared a cash dividend of \$0.42 per share, to be paid on June 18, 2012 to all stockholders of record as of the close of business on June 4, 2012. This dividend represents a 17% increase over the \$0.36 per share semi-annual dividend that we paid in the first half of 2011. This is the 17th consecutive year that we have paid a dividend, and the 9<sup>th</sup> consecutive year that we have paid semi-annual dividends. We are optimistic that we will be able to continue to do so in the coming years.

We are pleased with the way the year has started, and excited about the new products currently under development. We will continue to do our best to increase shareholder value without jeopardizing the financial strength that we have so carefully built over the past few years. Based on the recent performance of our stock it appears that our stockholders are pleased with the direction of the company, and we will continue to work hard to justify that confidence.

Sincerely,

UNITED-GUARDIAN, INC.



Ken Globus  
President

**RESULTS FOR THE FIRST QUARTER ENDED  
MARCH 31, 2012 and MARCH 31, 2011\***

**INCOME STATEMENTS**

	<b>THREE MONTHS ENDED</b>	
	<b>MARCH 31,</b>	
	<b><u>2012</u></b>	<b><u>2011</u></b>
Net sales	\$ 3,888,692	\$ 3,642,049
Costs and expenses	<u>2,142,703</u>	<u>1,981,736</u>
<b>Income from operations</b>	1,745,989	1,660,313
Other income	<u>72,341</u>	<u>66,070</u>
<b>Income before income taxes</b>	1,818,330	1,726,383
Provision for income taxes	<u>589,700</u>	<u>560,200</u>
<b>Net income</b>	\$ <u>1,228,630</u>	\$ <u>1,166,183</u>
<b>Earnings per common share</b> (basic and diluted)	\$ <u>0.27</u>	\$ <u>0.25</u>
Weighted average shares – basic and diluted	<u>4,596,439</u>	<u>4,596,439</u>

**BALANCE SHEETS**

<b><u>ASSETS</u></b>	<b>MARCH 31,</b>	<b>DECEMBER 31,</b>
	<b><u>2012</u></b>	<b><u>2011</u></b>
		(AUDITED)
Current assets:	\$ 15,642,499	\$ 13,972,796
Total property, plant and equipment, net	1,254,832	1,245,487
Other assets	<u>28,254</u>	<u>37,672</u>
<b>TOTAL ASSETS</b>	\$ <u>16,925,585</u>	\$ <u>15,255,955</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

	<b>MARCH 31,</b>	<b>DECEMBER 31,</b>
	<b><u>2012</u></b>	<b><u>2011</u></b>
		(AUDITED)
Total current liabilities	\$ 1,423,177	\$ 1,077,348
Deferred income taxes	97,565	64,578
Stockholders' equity	<u>15,404,843</u>	<u>14,114,029</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	\$ <u>16,925,585</u>	\$ <u>15,255,955</u>

\* Financial results are unaudited unless indicated otherwise.