2009 ANNUAL REPORT

to the Stockholders of

UNITED-GUARDIAN, INC.

April 13, 2010

Dear Stockholder,

I am pleased to report that FY-2009 was another excellent year for us, with both sales and earnings reaching record levels. Our ability to achieve this despite the very difficult global economic conditions that persisted during 2009 makes me especially proud of our accomplishment.

Sales for the year reached a new high of $13,276,984 compared with $12,292,147 in 2008, an increase of 8%. Even more significant was the growth in our net income, which increased by 23% and reached a record $3,878,963 ($0.78 per share), compared with $3,162,931 ($0.64 per share) in 2008. Some of the increase in revenue was due to price increases, but that would not have had as significant an impact had we not been able to keep our costs in check as well. This was true not only for raw material costs, but also for administrative and overhead costs. One example of this is our cost of sales as a percentage of sales, which declined from 44% in 2008 to 40% in 2009.

Most of the increase in volume that we experienced in 2009 was the result of increased sales of our non-pharmaceutical medical products, such as our medical lubricants. Some of this was the result of fluctuations in customer buying patterns, but there was also a significant increase in demand. Part of that increase came from growth in sales of a product that we have been selling for many years to a customer whose product line was acquired by a major global pharmaceutical company. We are now anticipating that additional resources are going to be put behind the marketing of that product, resulting, hopefully, in an increase in our sales to that customer in the coming years.

Sales of our cosmetic ingredients to International Specialty Products, Inc., our largest marketing partner, increased by about 12% last year compared with 2008. That increase was partially offset by a decline in sales of those products to our other European marketing partners. This was consistent with the overall sales decline that the industry experienced in Europe in 2009 for personal care products. Early indications from our European distributors are that they anticipate a gradual increase in sales this year, so we are hopeful that we will start to see improved sales into that part of the world as the year progresses.

As far as our financial condition is concerned, our balance sheet continues to grow stronger, with total assets increasing by $1.4 million from $17.3 million to $18.7 million, while liabilities increased only $400,000 from $2.6 million to $3.0 million. As a result, stockholders' equity increased by approximately $1 million from $14.7 million to $15.7 million. In addition, we ended the year with a very strong 6.0 to 1 current ratio, down slightly from the 6.2 to 1 in 2008 due to the higher dividend declared at the end of 2009.

As a result of the excellent year we had in 2009, the Board of Directors declared a record-high semi-annual dividend of $0.32 per share in December 2009, which was up from the $0.28 per share that was declared in December 2008, an increase of 14%. That brought the dividends declared in 2009 to $0.60 per share, which, at the current share price, is a yield of approximately 5%. This was the 14th consecutive year that we have paid a year-end dividend, and we are pleased that we have been able to maintain, and even increase, our dividend at a time when so many other companies have been struggling just to survive. We are hopeful that we will be able to maintain this policy of sharing the company's success with our shareholders.

We are continuing our efforts to enhance our product lines and expand our marketing efforts. One of our strategies over the past few years was to retain marketing consultants to help us develop new markets for our products, but this yielded disappointing results. We believe that there were two main reasons for their lack of success. First, both of the consultants we had retained had to abandon their efforts on our behalf before they were completed when their own personal financial situations required them to give up their independent consulting efforts. If that had been the only obstacle to their success we would have looked for another consultant to continue their work, but they had also discovered that reaching the decision-makers in large companies had become increasingly more difficult and frustrating. They could not get beyond a certain point with many of the large companies that we had hoped would be interested in our products. For that reason, we felt that it was not going to be worthwhile to hire another consultant who would just encounter the same obstacles.

Ironically, the main reason for retaining these consultants was to expand the market for our medical products, in particular the medical lubricants, and this past year saw a significant increase in sales of those products despite the failure of our consultants to make any real progress. It is our belief that the ability of prospective customers to locate products like ours using the internet has made it much easier for our medical products to be noticed by prospective customers. For that reason, continuing to hire consultants for this purpose may not be the most productive use of our resources. We believe that we now have a reputation in the marketplace for developing high quality medical lubricants, and that with the availability of this information on the internet our products now receive exposure that in the past would only have been possible with additional marketing efforts. While we certainly are not foreclosing the possibility of using other marketing resources for these products in the future, for now we are confident that even without the use of outside marketing consultants we will be able to continue to expand this growing line of products.

In regard to our cosmetic ingredients line, in April of last year we introduced a number of new products to our marketing partners at the In-Cosmetics show in Munich. All of these products were discussed in detail in my annual report to stockholders last year, so there is no need to discuss them again now. Since that time we have put a lot of our R&D resources into preparing for the marketing of these products, by developing marketing materials, performing stability studies, preparing sample formulations, and working with our marketing partners to develop marketing strategies. All of this work was designed to assist our marketing partners in successfully marketing these new products. While it has always been our goal to try to introduce at least one new product each year, in this case we felt that it would be better to put our R&D resources into providing our marketing partners with as much marketing support as we could for these products, rather than moving on to the next project prematurely. Hopefully this will better enable them to successfully introduce these products to their customers.

That doesn't mean, however that we are not working on new products. We are continuing to explore new opportunities for products in the area of cosmetic ingredients, while at the same time working to expand our growing line of medical products. While it is always a challenge to develop new products that are unique in the marketplace, with the expansion of our R&D department last year we are optimistic that we will be able to continue to develop new and exciting products to introduce into our global marketing network. Based on first quarter sales-to-date we are excited about the coming year, and will continue to keep our stockholders updated on our continuing marketing efforts. We are very pleased with the results from last year, and look forward to another successful and profitable year in 2010.

Sincerely,

UNITED-GUARDIAN, INC.

Ken Globus

Ken Globus
President