



# UNITED-GUARDIAN, INC.

Corporate Divisions  
GUARDIAN LABORATORIES

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## Second Quarter 2009 Report to Stockholders

September 2, 2009

Dear Stockholder:

I am pleased to report that earnings for the first half of 2009 reached a new high for the company, and revenue was close to attaining record levels as well. Earnings for the first six months of the year were \$1,910,672 (\$0.39 per share), up from \$1,575,563 (\$0.32 per share) for the first six months of 2008. Revenue for the six-month period increased from \$6,002,238 in 2008 to \$6,888,287 this year, an increase of 15%. While sales and earnings for the three-month period ended June 30th did not quite reach record levels, they were still very strong, especially considering the economic climate, and both were up slightly from the same period in 2008.

There were a number of factors that contributed to the record six-month earnings. As you may remember from my first quarter letter, sales of our non-pharmaceutical medical lubricant products had been up sharply in the first quarter of the year due to one of our customers bringing in usually large amounts of inventory in anticipation of moving one of its production facilities. That shifted some of the sales that would have taken place in the second (and probably third) quarters into the first quarter. We also implemented a price increase on pharmaceutical products in the second quarter, which resulted in additional revenue in the second quarter from customers bringing in additional inventory to avoid the price increase.

Another factor in the record six-month earnings was the unusually high level of sales of our personal care products in the beginning of the year, which helped us produce a very strong first quarter but resulted in some shift of those sales out of the second quarter. This was another reason why revenue in the second quarter was not as strong as the first, but that the six month sales and earnings numbers were very strong.

The final factor that contributed to our record earnings was a reduction in our costs. As a result of our continuing efforts to bring down our product costs, we were able to renegotiate our supply agreement for our most significant raw material. As a result, we were able to bring our cost of goods down from 42.3% to 40.9% for the six-month period.

In terms of our balance sheet, working capital increased by almost \$900,000 from December 31, 2008 to June 30, 2009, and our current ratio increased from an already strong 11 to 1 at June 30, 2008 to an even healthier 12 to 1 at June 30, 2009. So even with the steady payment of dividends we have still been able to strengthen our balance sheet. With many companies just struggling to stay in business these days, we are very proud of the fact that we have been able to continue to increase the financial health of the company and at the same time share the results of our success with our stockholders.

I have had a number of people ask me how we have been able to maintain our strong sales and earnings in an economy that has caused so much distress to so many other companies. I think there are a number of factors that made this possible. First, sales of our pharmaceutical products have never been impacted negatively by economic conditions, which is certainly not unusual for drug products. Since both of our pharmaceutical products are vital urological products to many patients, it is our belief that the patients who need those products will continue to use them, regardless of what is going on in the economy.

In regard to our personal care products, I believe that the reason our sales have not been negatively impacted is because we have hundreds of customers for those products, and they are being used as ingredients in mass market products as well as high-end products. While many of the high-end product companies have seen sales of those products impacted significantly over the past year, it is my belief that many consumers may have just switched from the high-end products to less expensive skin-care products. Since we are in many of those products as well, sometimes in higher percentages than in the more expensive brands, the sales of some of our products may actually have benefited from that situation.

While sales of our core products remain strong, we are still continuing our efforts to expand the sales of those products. We are also working hard to develop new products, both in the personal care and medical areas. We have a number of products that we have been working on for the past year or so that we expect to be actively marketing very shortly. Here is a status report on some of those products:

- **NATURAL POLYMER BLEND:** A new product made from natural sources (sourced from vegetables and micro-organisms), that is intended to be used as a natural thickener and emulsion stabilizer. We have finished the development work on this product and are in the process of filing a patent application. We expect to begin sampling this product by the end of September.
- **EMOLIEN:** A new water-based emollient and moisturizer. It is intended to be a cost-effective emollient (0.5% to 2%) to provide increased moisturization in creams, lotions and gels. Development work on this product is now complete, and we expect to begin sampling in the next few weeks.
- **ESSENTIAL ELEMENTS:** A new skin-care product utilizing copper/zinc peptides. Our internal studies have shown that the product has the ability to accelerate collagen production in the skin and improve and promote skin cell metabolism. We have filed a patent on this product, and are ready to begin sampling immediately.

- **LUBRAJEL UT:** A form of LUBRAJEL with a new ingredient that may have medical-related uses and benefits. Development work has now been completed, and we are in the process of putting the product into kits that will be distributed to companies specializing in urological products, many of which we currently deal with on some of our other medical products. Because this product has medical uses, the marketing effort is going to be a longer process than for our skin-care products, but we expect to begin sampling in October.

While it has taken some time to complete these projects, we will now have four new products going out to our marketing partners over the next two months. With our personal care products marketing does not really begin until our marketing partners have had a chance to evaluate the product and develop their own marketing plans. Although we don't expect to see any significant sales this year, we are optimistic that we will start to see revenue from one or more of the products in the first quarter of next year.

In some of my previous letters I had discussed an ongoing project with an Ohio company that was working with Cloroxine, our powerful chlorine-based disinfectant, germicide, and sanitizer. The company had applied to the EPA to use the product for a specific agricultural use, but to the best of our knowledge they have not actively pursued this project due to the death of one of the principals of the company, who, unfortunately, had been the driving force behind the project. Although we hope that at some point in the future they will resume the work, we don't anticipate seeing any significant progress on this project in the near future. We will continue to seek other partners to develop new markets for this product.

We are still trying to find the right marketing consultant to assist us in bringing some of our existing products, as well as some of the new medical and industrial products, to market. Unfortunately, the last two consultants we worked with were, for personal reasons, no longer able to continue. We are now in the process of trying to find another marketing consultant to work with, and we hope to have a replacement shortly.

Our third quarter has started out strong, especially considering that the summer is typically our slowest time. Combined sales for July and August were in excess of \$2.3 million, which is a very strong number for the summer months. We are optimistic that our third quarter will be another profitable one, and that we are well on our way to having another very profitable year.

Sincerely,

UNITED-GUARDIAN, INC.



Ken Globus  
President

RESULTS FOR THE SECOND QUARTER ENDED  
JUNE 30, 2009 and JUNE 30, 2008

**CONSOLIDATED STATEMENTS OF INCOME**

	SIX MONTHS ENDED JUNE 30,		THREE MONTHS ENDED JUNE 30,	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Net Sales	\$ 6,888,287	\$6,002,238	\$ 2,993,144	\$ 2,971,039
Costs and expenses	<u>4,217,298</u>	<u>3,888,811</u>	<u>1,960,994</u>	<u>1,992,316</u>
Income from operations	2,670,989	2,113,427	1,032,150	978,723
Other income (expense)	<u>185,083</u>	<u>239,636</u>	<u>93,481</u>	<u>119,072</u>
Income from operations before income taxes	2,856,072	2,353,063	1,125,631	1,097,795
Provision for income taxes	<u>945,400</u>	<u>777,500</u>	<u>370,200</u>	<u>361,500</u>
Net Income	<u>1,910,672</u>	<u>1,575,563</u>	<u>755,431</u>	<u>736,295</u>
Earnings per common share (Basic and Diluted)	\$ <u>0.39</u>	\$ <u>0.32</u>	\$ <u>0.15</u>	\$ <u>0.15</u>

**CONSOLIDATED BALANCE SHEETS**

**ASSETS**

	JUNE 30, <u>2009</u> (UNAUDITED)	DECEMBER 31, <u>2008</u>
Current assets	\$ 15,400,692	\$ 15,785,392
Property, plant and equipment (less depreciation)	900,699	951,979
Certificates of deposit due August 2010	123,474	271,976
Other assets	<u>260,836</u>	<u>274,276</u>
Total assets	\$ <u>16,685,701</u>	\$ <u>17,283,623</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

	JUNE 30, <u>2009</u> (UNAUDITED)	DECEMBER 31, <u>2008</u>
Current liabilities	\$ 1,278,344	\$ 2,548,712
Deferred income taxes	79,489	28,616
Stockholders' equity	<u>15,327,868</u>	<u>14,706,295</u>
Total liabilities and stockholders' equity	\$ <u>16,685,701</u>	\$ <u>17,283,623</u>

PLEASE NOTE:

This document contains both historical and "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements about the company's expectations or beliefs concerning future events, such as financial performance, business prospects, and similar matters, are being made in reliance upon the "safe harbor" provisions of that Act. Such statements are subject to a variety of factors that could cause our actual results or performance to differ materially from the anticipated results or performance expressed or implied by such forward-looking statements. For further information about the risks and uncertainties that may affect the company's business please refer to the company's reports and filings with the Securities and Exchange Commission.

More detailed financial information can be found at the company's web site at [www.u-g.com](http://www.u-g.com).