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Third Quarter 2010
Report to Stockholders

December 9, 2010

Dear Stockholder:

I am pleased to report that we had another very profitable third quarter, with both sales and earnings reaching the highest levels ever for any third quarter in the company's history. More importantly, sales and earnings for the first nine months of the year both set new records. Sales for the nine-month period were $11,159,860, an increase of 8.5% over the same period last year, and earnings for the period were $0.62 per share, an increase of $0.02 (3.3%) over last year. While this might not sound like much of an increase, it was actually a significant increase over last year when you take into consideration that in the second quarter we took a one-time charge to earnings of $0.12 per share in connection with the termination of our defined benefit pension plan. Had it not been for that one-time expense, our earnings per share would have been up 23.3% over last year for the nine-month period.

For the three months ended September 30, 2010 sales reached $3,848,393, which was an increase of 13.4% over the same period last year. Earnings for the third quarter were $0.27 per share versus $0.22 per share in the third quarter of 2009, an increase of 22.7%.

The increase in sales for the first nine months of the year was primarily attributable to a 17% increase in sales of our personal care product line, primarily our Lubrajel line of water-based moisturizing and lubricating products. Sales to ISP, our largest marketing partner, increased 15% for the nine-month period. Sales to Sederma, our second largest partner, increased 50% for the first nine months but declined 47% for the third quarter, which we believe was primarily attributable to the timing of their orders.

Sales of our non-pharmaceutical medical products, primarily our extensive line of water-based lubricating gels, were down 9% for the nine-month period but up 49% for the third quarter. Again, some of this was due to the timing or orders and some was due to one of our major customers bringing in additional inventory in the first six months of 2009 in anticipation of a change in its production facility, an event that did not repeat in 2010.

Our balance sheet continues to be outstanding, with our current ratio as of September 30, 2010, at almost 16:1. Our total assets are now about $14.7 million, while liabilities are just over $900,000.

I am also pleased to report that on December 1st the Board of Directors declared a $0.33 per share cash dividend to all stockholders of record as of December 15, 2010. The dividend will be paid on December 27, 2010. This increases to $0.63 per share the dividends declared by the Board of Directors this year, which is an increase of 5% over last year and a record for the company. This will now be the 15th consecutive year that the company has paid a year-end dividend.

As far as new projects are concerned, we are currently working on some new products based on ideas brought to us by our marketing partners during the In-Cosmetics conference we attended in April. We are putting renewed emphasis on developing "natural" products for our personal care line. We believe that this will continue to be a growing area over the next few years, and we want to be positioned to supply our customers with new natural products with which to formulate as the demand for these types of products continues to increase.

We are also awaiting feedback from our marketing partners on the new products we introduced over the past year. They have been sampling these products for the past few months, and the feedback we receive will determine whether we go forward with our marketing efforts for one or more of these products. It will also determine whether we proceed with filing international patent applications on one or more of them. One U.S. patent application has already been filed.

We are continuing to work closely with our marketing partners, particularly ISP, to expand our product line geographically. They will be re-launching our products to many of their sales people in the coming months, and they are projecting an increase in their sales of our products in 2011.

There is a situation taking place with one of our pharmaceutical products that I wanted to bring to the attention of our stockholders. It is one that will probably have a short-term negative impact on our pharmaceutical sales, but which we also believe may positively affect our future revenue. Our Renacidin Irrigation is made for us by an outside contractor. Several months ago we were notified by them that they had received a warning letter from the FDA indicating that some of their procedures were not in compliance with current FDA regulations at the facility where our product is manufactured. After receiving that FDA notification they informed us that deliveries of Renacidin would be delayed while they re-validated the appropriate procedures and gradually restarted production on all of the products affected. We were initially told that Renacidin production would resume in December. If that schedule had been accurate we would have had sufficient inventory to maintain shipments to our customers until the new deliveries started. Unfortunately, their restart process has not gone as smoothly as had been hoped and their schedule has slipped. They recently informed us that production of Renacidin would not resume until late January at the earliest.

Once we became aware of this new delay we immediately put them on notice that we believed that they were in breach of their contract with us, and that we would hold them accountable for any losses we incur as a result. Shortly after they received our notice of breach they contacted us to discuss other alternatives while they continued their efforts to restart production of Renacidin at the Clayton facility. They suggested to us a parallel course of action to validate production of Renacidin at one of their other manufacturing sites. The upside for us is that the new facility can manufacture the product in a much smaller single dose size, which is something that we have wanted to do for years but had refrained from doing because of the very significant expense and long payback period. Since we expect this contractor to cover all the transition costs associated with this change, it is an opportunity

for us to bring out a bottle size that people have been requesting for many years and which, we believe, will result in increased revenue.

While the long-term impact on revenue may be positive, it is the short term impact that is very hard to assess right now. Moving production to this new facility may mean going through a prior approval process with the FDA. There are various levels of submissions that might be available to us, and which one we go forward with will determine whether we can go to market with the new product in the first quarter of next year or whether it might be delayed until later in the year. We are currently estimating that we will be sold out of Renacidin sometime in January. Renacidin currently accounts for about 18% of our sales, averaging $210,000 in sales each month. Whatever sales we lose during this production curtailment will most likely not be recoverable. We will certainly do our best to recover all of our losses from the contractor once manufacturing has resumed and we can accurately assess how much business was lost.

I thought it was important to make our stockholders aware of this event, even though it is too early to accurately predict what the impact on sales will be. We have also filed a Form 8-K with the SEC to inform the general public of this event, since we felt that it was important that potential stockholders and current stockholders be privy to the same information. We are in constant contact with the contractor, which is moving quickly to expedite the process of getting the new facility approved. I will make it a point to send out a supplementary letter to stockholders to update everyone on our progress as we know more about what the timing will be.

Other than this disappointing news on Renacidin it has been an excellent year for us, and we anticipate that we will end the year with very strong profits and an equally strong balance sheet. While the Renacidin situation will certainly result in some short-term negative impact on revenue, we are hopeful that in the long run it will turn out to be a positive event for the company by enabling us to market this smaller dose size, which we have wanted to do for years. We remain confident that we will be able to continue to develop new and innovative personal care products that we can feed into our extensive global marketing network, as well as new variations on our medical lubricants. We are optimistic that 2011 will be another strong year for us.

From all of us at United-Guardian I would like to wish all of our stockholders a happy holiday season and a very healthy and happy New Year.

Sincerely,

UNITED-GUARDIAN, INC.

Ken Globus