



UNITED-GUARDIAN, INC.

Corporate Divisions
GUARDIAN LABORATORIES

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Interim Stockholders Report Second Half of 2007

December 31, 2007

Dear Stockholder:

You may have noticed that this year we have combined the second and third quarter stockholders' letters into this "Interim" report. With the sale of our Eastern Chemical Corporation taking up much of our time over the past few months, we decided to wait until we could report the final results of that transaction before sending out the next stockholders' letter. So for those of you who may not be aware of it, on December 11th we completed the sale of the assets of our Eastern Chemical Corporation subsidiary (including the name) to Pfaltz and Bauer, a well-known and respected competitor and customer of Eastern's for many years. We had entered into discussions with them a number of times over the years, because we knew that they were the company in the best position to be able to continue to service the business that Eastern had developed. Until now we had not been able to work out the terms of a sale, but with the imminent retirement of the manager of the Eastern business we knew this was the right time to do this, and we were able to reach an agreement on terms that were satisfactory to both parties.

The sale of the Eastern operation will mean the loss of approximately \$800,000 in gross sales (only about 7% of our revenue). Eastern's sales have steadily declined over the past few years, and we estimate that recently Eastern has been operating at break-even at best, so the loss of Eastern's sales will not affect our overall earnings. In fact, it is possible that our earnings may actually increase slightly with the elimination of those expenses. Since it would not have been practical to keep the business running with the retirement of Eastern's manager, it was definitely the right time to do this, and I think Pfaltz and Bauer was the best company to take over Eastern's business.

The financial results for the first half of the year, as well as the first nine months of the year, were both very strong. Revenue for the first six months of 2007 was \$7,244,933 compared with \$5,921,812 for the same period last year, an increase of 22%. Earnings for that period increased 49% to \$1,895,315 (\$0.38 per share) compared with \$1,272,381 (\$0.26 per share) for the same six-month period last year.

For the nine-month period ended September 30, 2007 revenue was up 16% from \$8,139,067 in 2006 to \$9,408,156 in 2007. Earnings for that period were up 35% over the same period last year, increasing from \$1,983,249 (\$0.40 per share) in 2006 to \$2,678,520 (\$0.54 per share) in 2007.

The increases in sales and earnings for the first nine months of 2007 was attributable to increases in sales of our personal care and medical products as well as to a reduction in our cost of goods sold, primarily due to the lower cost of one of our major raw materials in the first three quarters of the year in 2007. The cost of that key raw material has now begun to rise and is expected to continue to do so into the new year, so next year's cost of goods is expected to be higher than this past year. However, we have implemented a modest price increase on our personal care products effective January 1, 2008, which should enable us to maintain our profit margin as close as possible to where it was in 2007.

I would like to take this opportunity to remind our stockholders that although the timing of our stockholders' letters is always going to vary, depending on what is going on within the company at any particular time, our financial reports are always available online immediately after they are filed. The links to our SEC filings, as well as copies of all of our stockholders letters and press releases, are always available at www.u-g.com.

We are working on several projects that we hope will begin to generate revenue in 2008. The following is the status of some of those projects:

- In April, 2007 we introduced to our marketing partners our newest personal care ingredient, Lubrasil II SB, which is a microemulsion of 20% silicone in a Lubrajel base. It is an excellent moisturizing ingredient with a silky skin feel. Our primary marketing partner, International Specialty Products (ISP), has been working with this ingredient over the past eight months to get it positioned properly for marketing. They are now preparing to hand the product off to their marketing people. All of our other marketing partners have also been provided with samples and literature that they have sent out to their customers, and we are hopeful that we will soon begin to see results of those initial customer evaluations.
- We are continuing to work with Howard Industries, and Ohio-based company that specializes in custom chemical processing, to develop new markets and uses for some of our disinfecting products, particularly Cloronine™, our chlorine-based antimicrobial. They have had some excellent results using our product for an agricultural disinfecting use, and are currently in the process of obtaining EPA approval for that use. Unfortunately this is taking longer than expected due to additional testing that the EPA is requiring. While it would be difficult to estimate right now when commercial sales will begin (assuming they obtain EPA approval), we are optimistic that Howard will be a good partner for us, not only for this product but for other potential disinfecting products as well.
- The efforts that had been made by our marketing consultant to open up new potential markets for our medical products have not been as productive as we had hoped, although this is not from lack of trying. The consultant we have been working with

had hoped to have some strong leads by now, but she has found that while she was able to make some excellent initial contacts, progressing to the next level has been very difficult. She is making one final effort on our behalf, after which she will turn over her leads to us and we will follow-up on those leads ourselves. While we are disappointed that she was not able to progress further with this, we believe that the effort was worthwhile, and we are still hopeful that some of the seeds she planted may result in some future business for us.

- We are working on a new water-based emollient and moisturizer for personal care products that is unrelated to our Lubrajel line of moisturizers. This product is being developed for a very specific use, but until we file for patent protection I cannot discuss the particular market we have in mind. I will discuss this in more detail in my Annual Report to Stockholders in April after the patent application is filed.
- Another product that we are working on that we also plan to file a patent on if our development work proves successful is a product that will act as a “dry-feel sensory modifier”. This is intended to be an additive for creams and lotions to reduce the slippery feel and give it a drier consistency. This project is in a very early phase, but we feel it has a lot of potential.

At our Board of Directors meeting in December it was decided to declare an end-of-year semi-annual cash dividend of \$0.28 per share to all stockholders of record as of December 17, 2007. The dividend is to be paid on January 7, 2008. This brings the total dividends declared in 2007 to \$.55 per share, which is a yield of approximately 5.2% based on the current stock price.

While December sales were a little soft as a result not only of the holidays but also due to the desire of some customers not to bring in inventory at the end of the year, we still expect 2007 to be a record year for both sales and earnings. We have also started the year with some very substantial orders, so that should give us an excellent start to the new year.

From all of us at United-Guardian we wish all of our stockholders a healthy and happy new year, and look forward to another great year in 2008.

Sincerely,

UNITED-GUARDIAN, INC.



Ken Globus
President

**RESULTS FOR THE SECOND QUARTER ENDED
JUNE 30, 2007 and JUNE 30, 2006**

CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

| | SIX MONTHS ENDED JUNE 30, | | THREE MONTHS ENDED JUNE 30, | |
|--|------------------------------|---------------------|--------------------------------|---------------------|
| | <u>2007</u> | <u>2006</u> | <u>2007</u> | <u>2006</u> |
| Revenue: | | | | |
| Net sales | \$ <u>7,244,933</u> | \$ <u>5,921,812</u> | \$ <u>3,017,507</u> | \$ <u>3,057,015</u> |
| Costs and expenses: | | | | |
| Cost of sales | 3,114,295 | 2,793,799 | 1,301,269 | 1,441,188 |
| Operating expenses | <u>1,479,617</u> | <u>1,374,458</u> | <u>749,411</u> | <u>733,334</u> |
| | <u>4,593,912</u> | <u>4,168,257</u> | <u>2,050,680</u> | <u>2,174,522</u> |
| Income from operations | 2,651,021 | 1,753,555 | 966,827 | 882,493 |
| Other income (expense): | | | | |
| Investment income | 285,436 | 195,102 | 160,043 | 114,679 |
| Loss on sale of marketable securities | - | (349) | - | (349) |
| Gain on sale of equipment | 5,000 | - | 5,000 | - |
| Other | <u>(42)</u> | <u>(227)</u> | <u>-</u> | <u>(227)</u> |
| Income before income taxes | 2,941,415 | 1,948,081 | 1,131,870 | 996,596 |
| Provision for income taxes | 1,046,100 | 675,700 | 396,600 | 346,200 |
| Net income | \$ <u>1,895,315</u> | \$ <u>1,272,381</u> | \$ <u>735,270</u> | \$ <u>650,396</u> |
| Earnings per common share (basic and diluted) | \$ <u>.38</u> | \$ <u>.26</u> | \$ <u>.15</u> | \$ <u>.13</u> |
| Weighted average shares - basic | <u>4,943,422</u> | <u>4,941,167</u> | <u>4,944,547</u> | <u>4,942,139</u> |
| Weighted average shares - diluted | <u>4,945,382</u> | <u>4,944,600</u> | <u>4,945,877</u> | <u>4,944,876</u> |

CONSOLIDATED BALANCE SHEETS

| <u>ASSETS</u> | JUNE 30, 2007 (UNAUDITED) | DECEMBER 31, 2006 (AUDITED) |
|---|---------------------------------|-----------------------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 3,291,118 | \$ 3,027,486 |
| Temporary investments | 541,669 | 527,825 |
| Marketable securities | 7,402,913 | 7,346,653 |
| Accounts receivable, net of allowance for doubtful accounts | 1,260,942 | 1,421,788 |

| | | |
|---|--------------------------|--------------------------|
| Inventories (net) | 1,262,496 | 1,923,068 |
| Prepaid expenses and other current assets | 253,026 | 165,288 |
| Deferred income taxes | <u>557,761</u> | <u>534,761</u> |
| Total current assets | <u>14,569,925</u> | <u>14,946,869</u> |
| Property, plant and equipment: | | |
| Land | 69,000 | 69,000 |
| Factory equipment and fixtures | 3,187,780 | 3,119,797 |
| Building and improvements | 2,283,717 | 2,161,418 |
| Waste disposal plant | 133,532 | 133,532 |
| | ----- | ----- |
| | 5,674,029 | 5,483,747 |
| Less: Accumulated depreciation | <u>4,724,296</u> | <u>4,634,954</u> |
| | 949,733 | 848,793 |
| Other assets | 148,430 | 148,430 |
| | \$ <u>15,668,088</u> | \$ <u>15,944,092</u> |

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

| | | |
|----------------------------------|------------------|------------------|
| Dividends payable | \$ - | \$ 1,087,271 |
| Accounts payable | 170,331 | 222,625 |
| Current loans payable | 7,988 | 7,988 |
| Taxes payable | 114,529 | 65,438 |
| Accrued expenses | 893,401 | 579,913 |
| | ----- | ----- |
| Total current liabilities | 1,186,249 | 1,963,235 |

| | | |
|---------------------------|---------------|---------------|
| Loans payable | 10,651 | 14,645 |
| Accrued pension liability | 675,847 | 706,162 |
| Deferred income taxes | <u>34,360</u> | <u>34,360</u> |
| | 720,858 | 755,167 |

Stockholders' equity:

| | | |
|---|--------------------------|--------------------------|
| Common stock \$.10 par value, authorized, 10,000,000 shares; 5,008,639 and 5,004,339 shares issued, respectively, and 4,946,439 and 4,942,139 shares outstanding, respectively | 500,864 | 500,434 |
| Capital in excess of par value | 3,806,205 | 3,792,478 |
| Accumulated other comprehensive loss | (604,827) | (566,130) |
| Retained earnings | 10,418,369 | 9,858,538 |
| Treasury stock, at cost; 62,200 shares | <u>(359,630)</u> | <u>(359,630)</u> |
| Total stockholders' equity | <u>13,760,981</u> | <u>13,225,690</u> |
| | \$ <u>15,668,088</u> | \$ <u>15,944,092</u> |

**RESULTS FOR THE THIRD QUARTER ENDED
SEPTEMBER 30, 2007 and SEPTEMBER 30, 2006**

CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

| | NINE MONTHS ENDED SEPTEMBER 30, | | THREE MONTHS ENDED SEPTEMBER 30, | |
|---|------------------------------------|---------------------|-------------------------------------|---------------------|
| | <u>2007</u> | <u>2006</u> | <u>2007</u> | <u>2006</u> |
| Revenue from continuing operations: | | | | |
| Net sales | \$ <u>9,408,156</u> | \$ <u>8,139,067</u> | \$ <u>2,647,450</u> | \$ <u>2,755,062</u> |
| Costs and expenses: | | | | |
| Cost of sales | 3,767,963 | 3,718,592 | 973,992 | 1,263,118 |
| Operating expenses | <u>1,892,257</u> | <u>1,788,445</u> | <u>559,113</u> | <u>540,861</u> |
| | <u>5,660,220</u> | <u>5,507,037</u> | <u>1,535,105</u> | <u>1,803,979</u> |
| Income from continuing operations | 3,747,936 | 2,632,030 | 1,114,345 | 951,083 |
| Other income (expense): | | | | |
| Investment income | 425,935 | 303,718 | 140,499 | 108,616 |
| Loss on sale of marketable securities | --- | (1,134) | --- | (785) |
| Gain on sale of equipment | 5,000 | --- | --- | --- |
| Other | <u>(42)</u> | <u>(1,060)</u> | <u>---</u> | <u>(833)</u> |
| Income from continuing operations before income taxes | 4,178,829 | 2,933,554 | 1,254,844 | 1,058,081 |
| Provision for income taxes | <u>1,482,300</u> | <u>1,017,800</u> | <u>442,700</u> | <u>369,200</u> |
| Income from continuing operations | 2,696,529 | 1,915,754 | 812,144 | 688,881 |
| (Loss) income from discontinued operations, net of income tax | <u>(18,009)</u> | <u>67,495</u> | <u>(28,939)</u> | <u>21,987</u> |
| Net Income | \$ <u>2,678,520</u> | \$ <u>1,983,249</u> | \$ <u>783,205</u> | \$ <u>710,868</u> |
| Earnings per common share (Basic and Diluted): | | | | |
| Continuing operations | \$.54 | \$.39 | \$.16 | \$.14 |
| Discontinued operations | --- | <u>.01</u> | --- | --- |
| Total—Basic and diluted | \$ <u>.54</u> | \$ <u>.40</u> | \$ <u>.16</u> | \$ <u>.14</u> |
| Weighted average shares - basic | <u>4,944,439</u> | <u>4,941,494</u> | <u>4,946,439</u> | <u>4,942,139</u> |
| Weighted average shares - diluted | <u>4,945,746</u> | <u>4,944,637</u> | <u>4,946,439</u> | <u>4,944,876</u> |

CONSOLIDATED BALANCE SHEETS

| <u>ASSETS</u> | SEPTEMBER 30, 2007 <u>(UNAUDITED)</u> | DECEMBER 31, 2006 <u>(AUDITED)</u> |
|---|--|---|
| Current assets: | | |
| Cash and cash equivalents | \$ 3,440,233 | \$ 2,813,096 |
| Temporary investments | 548,720 | 527,825 |
| Marketable securities | 7,624,177 | 7,346,653 |
| Accounts receivable, net of allowance for doubtful accounts of \$35,000 at September 30, 2007 and December 31, 2006, respectively | 1,077,369 | 1,343,712 |
| Inventories (net) | 1,317,239 | 1,789,277 |
| Prepaid expenses and other current assets | 145,986 | 165,288 |
| Deferred income taxes | 515,261 | 534,761 |
| Assets held for sale | <u>562,211</u> | <u>426,257</u> |
| Total current assets | <u>15,231,196</u> | <u>14,946,869</u> |
| Property, plant and equipment: | | |
| Land | 69,000 | 69,000 |
| Factory equipment and fixtures | 3,201,400 | 3,119,797 |
| Building and improvements | 2,329,027 | 2,161,418 |
| Waste disposal plant | <u>133,532</u> | <u>133,532</u> |
| | 5,732,959 | 5,483,747 |
| Less: Accumulated depreciation | <u>4,770,646</u> | <u>4,634,954</u> |
| | <u>962,313</u> | <u>848,793</u> |
| Other assets | <u>148,430</u> | <u>148,430</u> |
| TOTAL ASSETS | \$ <u>16,341,939</u> | \$ <u>15,944,092</u> |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | September 30, 2007 <u>UNAUDITED</u> | December 31, 2006 <u>(AUDITED)</u> |
|--|---|--|
| Current liabilities: | | |
| Dividends payable | \$ --- | \$ 1,087,271 |
| Accounts payable | 213,973 | 190,255 |
| Current loans payable | 7,988 | 7,988 |
| Taxes payable | 75,756 | 65,438 |
| Accrued expenses | 642,674 | 525,923 |
| Liabilities held for sale | <u>94,413</u> | <u>86,360</u> |
| Total current liabilities | <u>1,034,804</u> | <u>1,963,235</u> |
| Loans payable | 8,654 | 14,645 |
| Accrued pension liability | 648,189 | 706,162 |
| Deferred income taxes | <u>34,360</u> | <u>34,360</u> |
| Total long term liabilities | <u>691,203</u> | <u>755,167</u> |
| Stockholders' equity: | | |
| Common stock \$.10 par value, authorized, 10,000,000 shares; 5,008,639 and 5,004,339 shares issued, respectively, and 4,946,439 and 4,942,139 shares outstanding, respectively | 500,864 | 500,434 |
| Capital in excess of par value | 3,806,205 | 3,792,478 |
| Accumulated other comprehensive loss | (533,081) | (566,130) |
| Retained earnings | 11,201,574 | 9,858,538 |
| Treasury stock, at cost; 62,200 shares | <u>(359,630)</u> | <u>(359,630)</u> |
| Total stockholders' equity | <u>14,615,932</u> | <u>13,225,690</u> |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ <u>16,341,939</u> | \$ <u>15,944,092</u> |

NOTE: More detailed financial information can be found in the company's SEC filings on the company's web site at :

http://www.u-g.com/corporate/SEC_Filings.html