UNITED-GUARDIAN, INC.

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Third Quarter 2012
Report to Stockholders

January 25, 2013

Dear Stockholder:

I would first like to apologize for the delay in sending out this third quarter stockholders letter. I held off issuing it because the situation regarding our Renacidin Irrigation has been constantly changing, and I wanted to be able to give our stockholders as up-to-date a report as I could. It took much longer than we anticipated to resolve the issues and come up with a settlement that we could both live with. However, I am happy to report that we have arrived at a mutually acceptable settlement with Hospira Worldwide, Inc., the company that has been manufacturing Renacidin for us, and we can now concentrate on moving forward with our plans for a new dosage unit and new supplier.

Before I go into detail as to exactly what has been transpiring over the past few months in connection with Renacidin, and what the future holds, I would first like to review the financial results for our third quarter. Revenue for the quarter was $3,527,000, with net income of $1,116,000, or $0.24 per share. This compares with revenue of $3,345,000 and net income of $1,369,000 ($0.30 per share) for the same quarter in 2011. The primary reason for the higher net income in the third quarter of 2011, despite the slightly higher revenue in the third quarter of 2012, was that there was a monetary settlement with Hospira that took place in the third quarter in 2011 in connection with the first production curtailment at Hospira's manufacturing site. That settlement accounted for about $0.05 per share of our earnings in the third quarter of 2011. There was no comparable settlement in the third quarter of 2012.

For the nine-month period ended September 30, 2012, revenue was up slightly from $11,047,000 to $11,151,000, and earnings decreased from $3,760,000 ($0.82 per share) to $3,538,000 ($0.77 per share). Again, the difference was primarily attributable to the additional revenue received from the Renacidin settlement in 2011.

Those of you who have been reading my stockholders letters over the past couple of years will recall that Hospira curtailed production of Renacidin for a second time in May 2012, so once again we had to allocate our inventory for several months until our inventory was depleted in July 2012. As a result, for the third quarter of 2012 there were minimal sales of Renacidin, which negatively impacted our revenue for that quarter. On a positive note, despite the loss of those Renacidin sales, our net sales for the third quarter of 2012 were up, with sales of personal care products increasing by 12%, and sales of medical products increasing by 14% over the third quarter of 2011. The additional revenue generated from the increases in sales of those products helped to offset the revenue we lost from Renacidin.

The increase in revenue from our personal care products line in the third quarter of 2012, as well as the first nine months of 2012, was primarily the result of increased sales to Ashland Specialty

Ingredients ("ASI"), the Company's largest marketing partner. Our partnership with ASI continues to grow, and they just began marketing a new oral care product that we developed for them. We hope this will be just the first of many products that we can work on with ASI in order to continue to expand our already close working relationship.

Because of the strong third quarter sales our financial strength continues to grow, with working capital increasing by almost $2 million since the end of 2011, and our current ratio increasing from 13:1 at December 31, 2011 to 17:1 at September 30, 2012.

As far as Renacidin is concerned, we have been working on three separate issues over the past few months: reimbursement from Hospira for our lost sales revenue; re-start of production by Hospira; and locating a new manufacturer to take Hospira's place when our supply contract ends. I would like to address each of these issues separately:

a) In regard to reimbursement for our lost revenue, on January 18th we entered into a settlement agreement with Hospira resolving the issues resulting from the current production curtailment. The agreement provides for us to be reimbursed not only for the gross profits we lost in 2012, but also for each month that the curtailment continues, beginning January 2013 and continuing until either production resumes or our contract with them ends on January 21, 2014. The agreement reimburses us for most, but not all, of our 2012 losses, as well as losses we anticipate that we will continue to incur until Hospira resumes production. If you would like more details on the terms of the settlement, the agreement itself has been filed as an exhibit to a Form 8-K that we filed on January 23rd after the agreement was signed (see * below for a link to that exhibit).

b) As far as restarting production, Hospira currently estimates that production of Renacidin will resume in September. They and we are hopeful that the FDA will work with us to shorten that time period, but for now that is the current projection. I should point out, however, that although we believe that Hospira does intend to restart production of Renacidin, it is possible that the restart could get delayed, or possibly even abandoned, if that projected restart date gets delayed for too long. The FDA has indicated to us that it would like to see the product back on the market as soon as possible, and the FDA's Drug Shortage Program has offered to assist Hospira with regulatory issues in any way it can. So we are hopeful that the September date will be the latest it will happen, and are certainly hopeful that it will be sooner than that.

c) In regard to future production, we have been discussing the Renacidin project with several companies over the past few months, and we believe that we have found a very good company with which we can partner. We are estimating that we could have a new, smaller single dose size ready for marketing by the fourth quarter of 2014. Assuming Hospira resumes production as scheduled, we intend to bring in sufficient inventory to last us until we receive FDA approval of the new manufacturing site and dosage unit. We are very excited about this new dosage size, which will probably be a small (30ml) low density polyethylene bottle that can connect directly with catheters and provide a single dose of product. It will be much more convenient that our current 500ml glass bottle, and will also result in much lower shipping costs. It's something that we have talked about doing for many years, but hesitated to do because of the costs. The company we are currently in discussions with seems to be able to do the project at a reasonable cost, and provide us with a unit dose cost that will make it very attractive, both for us and for the patients. I hope to have much more information on this in my Annual Report to Stockholders in April.

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* http://www.sec.gov/Archives/edgar/data/101295/000117184313000221/exh_101.htm

We are continuing our efforts to develop new products, and are focusing primarily on extensions to our new “Lubrajel Natural” line. We believe that interest in this product line will continue to grow as we expand the number of products available. We are also waiting for feedback from India on a new lower-cost form of Lubrajel that was developed specifically for the personal care market in India. If it is successful we will look to expand the marketing of that product to other countries where a lower-priced product would be a good fit. I will go into more detail on the status of this and all of our development projects in the next Annual Report.

In light of the uncertainty as to the tax treatment of dividends at the end of 2012, the Board of Directors, at its meeting in December, declared not only a semi-annual dividend of $0.44 per share, but also a Special Dividend of $0.50 per share. It was paid on December 21, 2012 to all stockholders of record as of December 14, 2012. The Board concluded that because of the company’s strong cash and marketable securities position, along with the belief that the company would be able to continue to generate and increase free cash flow over the coming years, that it was in the best interests of the company’s shareholders to pay these two dividends. It also reflects our continuing commitment to return excess cash to shareholders whenever possible.

Although the situation with Renacidin has been very frustrating for all of us, I believe that the settlement agreement with Hospira was a reasonable one, and that it was in our best interests to settle this matter rather than have it go to arbitration, which would not only have delayed any reimbursement to us but also would have resulted in substantial legal expenses. The settlement reimburses us for most of what we have lost financially. Unfortunately, it doesn’t do anything for the many patients who call us on a daily basis, desperate to get the product. We are hopeful that in the long run the pain that we are experiencing now will result in a better and more marketable product, one that will enable us to increase our revenue from this product over the coming years, and possibly expand its marketing to other countries as well. At the same time we will continue to work with our marketing partners to find new markets for our existing products, and develop new personal care and medical products. I am optimistic about the future, and look forward to continuing our history of providing the market with new and innovative products.

Sincerely,

UNITED-GUARDIAN, INC.

Ken Globus

Ken Globus

RESULTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 and SEPTEMBER 30, 2011
(UNAUDITED UNLESS OTHERWISE INDICATED)

UNITED-GUARDIAN, INC.

STATEMENTS OF INCOME

(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2012	**2011**	**2012**	**2011**
Net sales	$ 3,527,387	$ 3,345,035	$ 11,151,179	$ 11,047,383
Costs and expenses:				
Cost of sales	1,334,491	1,229,561	4,339,450	4,318,444
Operating expenses	598,100	537,248	1,749,217	1,759,177
Total costs and expenses	1,932,591	1,766,809	6,088,667	6,077,621
Income from operations	1,594,796	1,578,226	5,062,512	4,969,762
Other income:				
Investment income	51,065	61,308	162,413	205,211
Gain on sale of assets	---	12,267	2,750	18,251
Income from damage settlement	---	385,182	---	385,182
Total other income	51,065	458,757	165,163	608,644
Income before income taxes	1,645,861	2,036,983	5,227,675	5,578,406
Provision for income taxes	529,700	667,700	1,689,800	1,818,300
Net Income	$ 1,116,161	$ 1,369,283	$ 3,537,875	$ 3,760,106
Earnings per common share (Basic and Diluted)	$ 0.24	$ 0.30	$ 0.77	$ 0.82
Weighted average shares – basic and diluted	4,596,439	4,596,439	4,596,439	4,596,439

BALANCE SHEETS

ASSETS

	SEPTEMBER 30, 2012 (UNAUDITED)	DECEMBER 31, 2011
Current assets:		
Cash and cash equivalents	$ 1,695,602	$ 1,090,974
Marketable securities	11,185,589	9,295,755
Accounts receivable, net of allowance for doubtful accounts of $18,000 at September 30, 2012 and	1,482,541	1,653,440
Inventories (net)	1,124,250	1,467,434
Prepaid expenses and other current assets	103,639	163,034
Prepaid income taxes	---	78,613
Deferred income taxes	223,546	223,546
Total current assets	15,815,167	13,972,796
Property, plant and equipment:		
Land	69,000	69,000
Factory equipment and fixtures	3,786,037	3,694,379
Building and improvements	2,725,993	2,714,780
Waste disposal plant	133,532	133,532
Total property, plant and equipment	6,714,562	6,611,691
Less: Accumulated depreciation	5,500,746	5,366,204
Total property, plant and equipment, net	1,213,816	1,245,487
Other assets	9,418	37,672
TOTAL ASSETS	$ 17,038,401	$ 15,255,955

LIABILITIES AND STOCKHOLDERS' EQUITY

	SEPTEMBER 30, 2012 (UNAUDITED)	DECEMBER 31, 2011
Current liabilities:		
Accounts payable	$ 163,463	$ 400,389
Accrued expenses	686,940	676,959
Income taxes payable	86,642	---
Total current liabilities	937,045	1,077,348
Deferred income taxes	174,035	64,578
Stockholders' equity:		
Common stock $.10 par value, authorized, 10,000,000 shares; 4,596,439 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively.	459,644	459,644
Accumulated other comprehensive income	240,534	34,612
Retained earnings	15,227,143	13,619,773
Total stockholders' equity	15,927,321	14,114,029
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 17,038,401	$ 15,255,955