UNITED-GUARDIAN, INC.

Corporate Divisions
GUARDIAN LABORATORIES

Corporate Headquarters
230 MARCUS BLVD.
HAUPPAUGE, NY 11788

Mailing Address
P.O. BOX 18050
HAUPPAUGE, NY 11788

TEL: (631) 273-0900
FAX: (631) 273-0858
E-MAIL: pgc@u-g.com

Second Quarter 2012
Report to Stockholders

September 12, 2012

Dear Stockholder:

I am pleased to report that the second quarter of 2012 was another strong one, resulting in earnings for the first half of the year reaching a new high of $0.53 per share. We were able to achieve this record level of earnings despite sales being down slightly (1%) from the first half of 2011. Sales for the three-month period ended June 30, 2012 were $3,735,100, compared with $4,060,299 for the comparable period in 2011, and sales for the first half of the year were $7,623,792 compared with $7,702,348 for the same period last year. The slightly lower sales figures were due primarily to our inability to fill orders for our Renacidin® Irrigation due to production problems experienced by the company that manufactures that product for us. As a result, sales of Renacidin were approximately 45% lower than they were in the second quarter of 2011. I will go into more detail on the Renacidin situation later in this letter.

Some of the revenue we lost as a result of the Renacidin shortage was offset by increases in sales of our personal care and medical products. For the first half of the year, sales of personal care products increased by just over 1% compared with 2011, and sales of medical products increased by 31%. Some of these changes may have been at least partially a result of the timing of orders; we will know more after we see the third and fourth quarter numbers. However, the interest in our Lubrajel line of water-based moisturizers for medical use has steadily increased over the past few years, and we believe that this will be an area of growth for us in the coming years. In addition, we were able to reduce some operating expenses and overhead costs, which also helped to compensate for some of the reduced Renacidin revenue. So despite the loss of Renacidin sales in the second quarter we were still able to come within 1% of our 2011 6-month revenue number.

As a result of the profitable second quarter, both our balance sheet and overall financial strength have continued to grow, with working capital increasing by $708,000 to $13.6 million, and our current ratio continuing to be very strong at approximately 12 to 1.

With the Renacidin situation changing from week to week I will do my best to keep our stockholders as up to date as possible, but I would like everyone to keep in mind that the situation is very fluid and can change significantly from one week to the next. I'm not going to go into detail here about the history of the problems we have had with the company that manufactures this product for us, since I went into considerable detail on that in our last SEC filing (the Form 10-Q for the second quarter of 2012). Instead, I would like to focus on where things stand now and what we anticipate for the future.

It is important to note first that Renacidin Irrigation, which is a sterile liquid, has been manufactured for us by outside sources since it first came on the market in liquid form about 20 years ago. We do not have the manufacturing and filling capability to produce and bottle a sterile product like this at our facility, nor are we licensed by the FDA to do so. As a result, it has always been necessary for us to have this product manufactured for us by outside sources, and there are very few companies that have the ability to handle products like this, especially when the volumes are relatively small.

Until about four years ago we had virtually no manufacturing problems with this product. In 2005 we were informed by the supplier that production had to be moved to a different facility. An application to change facilities was filed with the FDA in December 2006, approved in May 2007, and manufacturing at the new facility began in November 2007. Since that time there have been manufacturing issues that we never experienced before. These problems had nothing to do with our product in particular, and were, for the most part, systemic problems that affected all of the production at that facility. Unfortunately, in order to move production to a new manufacturer we would once again need to obtain FDA approval, which involves making pilot runs, performing accelerated and long-term stability studies, and providing substantial other documentation necessary to assure the FDA that the product can be made satisfactorily at the new facility.

Because of the significant expense and time involved in changing suppliers, we have remained with this supplier as it has attempted to work through the various production problems. We thought we were through the worst of it last year, but early in 2012 we were notified that new issues had come up. In May of this year they produced three batches of product for us, which should have been delivered to us by the end of June, but because of new problems that arose they will not release them until all the issues are resolved. Those three batches, which would provide us with about 5 months sales of product, are still being held.

We have also been notified by the supplier that for various reasons it does not intend to continue manufacturing the product for us beyond 2014, which is when our contract with them expires. Over the past few months we have been actively looking for a new company that not only could provide us with a more reliable manufacturing source, but which could also provide us with a new smaller dosage size and more user-friendly packaging, which is something that we have wanted to do for a long time. We were lucky enough to have located a company that is able to do this for us, and we are now working closely with them to put a new supply agreement in place as soon as possible. They would package the product in a new single-use 30ml plastic vial, which we think will be a significant improvement in usability compared with the 500ml glass bottle we currently use.
We expect the approval process for the new manufacturing site to take about 18-24 months. Until then, we are still dependent on our current supplier, and at the present time we have no way of determining when, if ever, we will receive product from them. We have requested that the FDA get involved to assist us in getting the three batches they are holding released, but if they can't resolve their manufacturing issues it is possible that they may never go back into production on this product. This would mean that we could be without Renacidin sales until 2014.

The last time we had production issues with this supplier we were reimbursed for all of our lost profits, and we plan to hold them responsible for this latest production curtailment as well. As long as we can recover our lost profits we don’t expect this situation to have any significant impact on earnings. But since these discussions with them are just beginning it is too early to predict what will happen.

While there clearly will be some short-term pain involved in this change of suppliers, we are hopeful that the new dosage size and improved packaging might increase our future sales of this product. We have believed for many years that a smaller, single dose unit size would be well received in the marketplace. Even though it may be coming about as a result of a situation that we certainly did not anticipate, we are optimistic that the end result will be an improved product and, hopefully, increased revenue, in the years to come.

On a more positive note, we are continuing our efforts to broaden our line of personal care and medical products. Our primary focus right now is on the expansion of our new line of “Natural” Lubrajels. The first product in this line has been completed and had been sampled to our marketing partners. We hope that this will be just the first of many new formulations in this exciting new line.

We are also working on a new lower cost Lubrajel that might enable us to begin penetrating the personal care market in India. We believe that there is significant sales potential for us in that country through ASI, our marketing partner in that part of the world, and our current formulations are not suitable for that country due to their relatively high cost. We are working with ASI to develop a new formulation specifically for that market, and are excited about the possible business opportunities if we are successful.

Although I wish I had better news about the Renacidin situation, I am confident that we will get through it without any material impact on the company, and that the new dosage size will, in the long run, be very beneficial. I will try to keep our stockholders as up-to-date as I can, possibly by issuing an interim stockholders letter as things progress. We plan to continue our efforts to develop additional personal care and medical products to supplement our current line, and are confident that we will still have a very strong year despite the Renacidin situation.

Sincerely,

UNITED-GUARDIAN, INC.

Ken Globus
President

RESULTS FOR THE THREE AND SIX MONTHS ENDED
JUNE 30, 2012 and JUNE 30, 2011
(UNAUDITED)

INCOME STATEMENTS

	THREE MONTHS ENDED JUNE 30, 2012	THREE MONTHS ENDED JUNE 30, 2011	SIX MONTHS ENDED JUNE 30, 2012	SIX MONTHS ENDED JUNE 30, 2011
Net sales	$ 3,735,100	$ 4,060,299	$ 7,623,792	$ 7,702,348
Costs and expenses:				
Cost of sales	1,465,119	1,628,293	3,004,959	3,088,883
Operating expenses	548,254	700,783	1,151,117	1,221,929
Total costs and expenses	2,013,373	2,329,076	4,156,076	4,310,812
Income from operations	1,721,727	1,731,223	3,467,716	3,391,536
Other income:				
Investment income	41,757	72,580	111,348	143,903
Gain on sale of assets	---	11,237	2,750	5,984
Total other income	41,757	83,817	114,098	149,887
Income before income taxes	1,763,484	1,815,040	3,581,814	3,541,423
Provision for income taxes	570,400	590,400	1,160,100	1,150,600
Net Income	$ 1,193,084	$ 1,224,640	$ 2,421,714	$ 2,390,823
Earnings per common share (Basic and Diluted)	$ 0.26	$ 0.27	$ 0.53	$ 0.52
Weighted average shares – basic and diluted	4,596,439	4,596,439	4,596,439	4,596,439

BALANCE SHEETS

ASSETS	JUNE 30, 2012 (UNAUDITED)	DECEMBER 31, 2011
Current assets:		
Cash and cash equivalents	$ 1,836,114	$ 1,090,974
Marketable securities	9,473,530	9,295,755
Accounts receivable, net of allowance for doubtful accounts of $18,000 at June 30, 2012 and December 31, 2011	2,012,659	1,653,440
Inventories (net)	1,127,825	1,467,434
Prepaid expenses and other current assets	167,726	163,034
Prepaid income taxes	---	78,613
Deferred income taxes	223,546	223,546
Total current assets	14,841,400	13,972,796

Property, plant and equipment:		
Land	69,000	69,000
Factory equipment and fixtures	3,744,157	3,694,379
Building and improvements	2,716,516	2,714,780
Waste disposal plant	133,532	133,532
Total property, plant and equipment	6,663,205	6,611,691
Less: Accumulated depreciation	5,451,084	5,366,204
Total property, plant and equipment, net	1,212,121	1,245,487
Other assets	18,836	37,672
TOTAL ASSETS	$ 16,072,357	$ 15,255,955

LIABILITIES AND STOCKHOLDERS' EQUITY

	JUNE 30, 2012 (UNAUDITED)	DECEMBER 31, 2011
Current liabilities:		
Accounts payable	$ 126,259	$ 400,389
Accrued expenses	1,047,306	676,959
Income taxes payable	64,442	---
Total current liabilities	1,238,007	1,077,348
Deferred income taxes	121,606	64,578
Stockholders' equity:		
Common stock $.10 par value, authorized, 10,000,000 shares; 4,596,439 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively.	459,644	459,644
Accumulated other comprehensive income	142,117	34,612
Retained earnings	14,110,983	13,619,773
Total stockholders' equity	14,712,744	14,114,029
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 16,072,357	$ 15,255,955