



2011 ANNUAL REPORT

to the Stockholders of

UNITED-GUARDIAN, INC.

April 15, 2012

Dear Stockholder,

While the global economic recovery continues to be slower than expected, this past year has been good to us, with sales and earnings both reaching new highs. I attribute our success primarily to having a line of products that sets us apart from many other companies, both in the quality of what we produce and in our ability to innovate quickly to take advantage of changes in the marketplace. Cosmetics and pharmaceuticals have both been market segments that historically have been more resistant to economic downturns. As a result, we have continued to do well, despite the fact that the U.S. and foreign economies are still struggling to improve.

I am happy to report that for the first time in the company's history sales have exceeded \$14 million, increasing from \$13,723,074 in 2010 to \$14,338,512 last year, an increase of 4.5%. Consistent with that, our earnings also reached a record high of \$1.03 per share, compared with \$0.80 per share in 2010. This is the first time our earnings have surpassed the \$1.00 per share mark.

There are a number of reasons why our financial results were as strong as they were last year. First, sales of our cosmetic ingredients increased 10% over 2010, due primarily to the continuing success of our marketing partnerships with companies such as Ashland Specialty Ingredients (ASI), our largest marketing partner. ASI is one of the four commercial units of Ashland Inc. (NYSE: ASH), and was formed when Ashland Inc. acquired International Specialty Products Inc. (ISP) in August 2011 and integrated it into Ashland's Aqualon Functional Ingredients commercial unit. The name of the combined unit was then changed to Ashland Specialty Ingredients. As many of you probably know, for many years International Specialty Products has been our largest marketing partner. We are excited about our new relationship with Ashland, which had \$6.5 billion in sales last year. We have been working closely with them to develop new products, and are confident that, with their assistance, as well as the marketing efforts of our other marketing partners, we will be able to continue to grow the sales of our cosmetic ingredients.

The second reason for our strong 2011 results was the growth of our non-pharmaceutical medical products business, which increased 11% over 2010. This continues to be a growing market for us, and we just completed work on a project with a major new foreign customer for a new medical lubricant (see Lubrajel TF below) that we developed specifically for them. We expect to see significant sales to them this year, and are confident that we can continue to grow this market segment as well.

Sales of our two pharmaceutical products, Clorpactin® and Renacidin® Irrigation, have typically been very steady from year-to-year, but Renacidin sales still have not fully recovered from the temporary production curtailment we experienced at the end of 2010 and beginning of 2011. The curtailment was the result of regulatory issues at the production facility responsible for manufacturing Renacidin for us. Even though our product was not involved, they were required to obtain FDA approval before they could restart production at that facility, so we lost considerable sales at the end of 2010 and the first few months of 2011 while they were undergoing the restart process. Although we were fully compensated by them for our lost profits, it has taken longer than expected to regain the level of sales we had before the curtailment. We are hopeful that with increased advertising we will once again reach, and hopefully exceed, our previous sales levels. We are also investigating the possibility of producing a smaller and more user-friendly dosage size of Renacidin, which we believe will result in increased sales. If we decide to go forward with that project, and if we are successful with its development, we believe that it could substantially increase our revenue from Renacidin in the coming years. Our current estimate is that it will take approximately 24 months to receive FDA approval, which means the product would probably come onto the market in mid to late 2014.

In addition to our continuing efforts to increase the market share for our existing products, we are also working with our marketing partners to continue to expand our product lines. The most important product development work going on right now is in connection with our new Lubrajel Natural. This is a completely new product formulation of Lubrajel, which is our extensive line of water-based moisturizing and lubricating gels. We expect the product to be considered "natural" by Ecocert, a leading industry certification organization for natural and organic products. We believe that this product will be of interest to many companies looking to develop all-

natural products. We currently have one prototype formulation being evaluated by ASI, and hope to add additional formulations as the project progresses. We expect the current interest in all-natural products to continue to grow, and believe that developing an all-natural Lubrajel formulation would be very exciting to our customers. We are also researching an all-natural Lubrajel based on ingredients from the sea. Our goal is to have at least two of these all-natural Lubrajels in the hands of our marketing partners by the end of 2012.

In 2011 we also completed work on our new Unitwix II. This is a reformulation of our original Unitwix, a cosmetic additive used as a thickener for oils and oil-based liquids. The new formulation is less expensive to produce, which will enable us to market it at a substantially lower price than the original formulation. Last year, samples were provided to our current Unitwix customers, and some have already switched to the new product. The Unitwix II was developed primarily because of the significant increase in raw material costs for Unitwix over the past two years. Whether this new formulation will be successful or not will depend on whether our primary customer for Unitwix reformulates with Unitwix II, and whether we are able to continue to obtain the raw materials for the new formulation at prices that will enable us to sell it at a price that will be cost effective for our customers.

The status of some of our other research projects is as follows:

- **LUBRAJEL TF:** A new medical lubricant (mentioned above) developed specifically for a global medical products company. Development work has been completed and the first trial order has been shipped. Regular sales are expected to begin by the end of the second quarter of 2012.
- **VEGETABLE OIL THICKENER:** A thickener for cosmetic products using a vegetable oil base, particularly lotions. The goal is to develop a thickener that will result in a clear and colorless finished product, which current products cannot do.
- **LUBRAJEL BA:** A new Lubrajel formulation for oral care uses.
- **SENSORY ENHANCERS:** Skin-feel modifiers to enhance the skin feel of cosmetic products.
- **RAZORIDE "F":** a modification of our original Razoride formula that has been developed for a new customer, who plans to market it sometime in 2012 in high-end stores.

With the exception of the Lubrajel Natural, Lubrajel TF, and Unitwix II, all of the projects mentioned above are in very early stages of development, and it should be understood that there is no guarantee that we will be successful in our development efforts. However, we believe that there is market potential for all of them, and we plan to work closely with our marketing partners to decide where our research efforts would be the most productive.

We were once again very pleased to be in a financial position to not only pay dividends to our stockholders in 2011, but to increase those dividends substantially over the previous year. In 2011, the Board of Directors declared two semi-annual dividends totaling \$0.80 per share, a 27% increase over the \$0.63 per share in dividends that the Board declared in FY-2010. This is the 16th consecutive year that we have paid a dividend, and once again we are very happy to be able to share our continued success with our stockholders. As those of you who have been our stockholders for a while know, our stock price over the past few years has risen steadily. We believe that the increase in earnings and dividend payments that we have experienced is the primary reason for this. As a result, our stock has come to the attention of people who otherwise may not have taken notice, and that has increased the daily trading volume of our stock as well.

I am optimistic that we will be able to continue to develop new and unique products for the personal care and medical markets. Our goal is to continue to increase our sales and earnings in the coming years as we further increase the market penetration of our existing products, and continue the development of some exciting new products. I am grateful to all of our stockholders who have put their faith in us, and we will continue to do our best to make sure that your confidence in us remains justified in the coming years.

Sincerely,

UNITED-GUARDIAN, INC.



Ken Globus
President