UNITED-GUARDIAN, INC.

Corporate Divisions
GUARDIAN LABORATORIES

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Second Quarter 2011
Report to Stockholders

September 15, 2011

Dear Stockholder:

The second quarter of 2011 was another very strong one, with sales exceeding $4 million for the first time in the company's history. Net sales for the quarter were $4,060,299, which was an increase of 8.7% over the comparable period in 2010. Net income for the quarter was $1,224,640 ($0.27 per share) compared with $624,524 ($0.13 per share) for the same quarter in 2010. For the first six months of the year, sales increased 5.3% from $7.3 million to $7.7 million, and net income increased from $1.7 million in 2010 ($0.35 per share) to $2.4 million ($0.52 per share) in 2011.

It should be noted that in the second quarter of 2010 the company incurred a one-time pension termination expense of $847,744, which was equivalent to approximately $0.12 per share of earnings. Had it not been for this one-time expense, earnings for the second quarter of 2011 would have increased approximately $0.02 per share, from $0.25 to $0.27, over the same period in 2010, and earnings for the first half of the year would have increased approximately $0.05 per share from $0.47 to $0.52, over the comparable period in 2010.

There were two primary reasons for the increase in second quarter sales in 2011. First, as I reported in previous stockholder letters, production of our most important pharmaceutical product, Renacidin Irrigation, was curtailed at the end of 2010 due to regulatory issues that had to be addressed by the pharmaceutical company that manufactures Renacidin for us. Production of Renacidin resumed in May of this year, which led to significant purchases of product by our distributors, whose inventories of Renacidin had been depleted. In addition, we implemented a price increase on June 1st, which led to additional sales to those customers bringing in additional inventory in order to avoid the price increase. As a result, Renacidin sales for the second quarter of 2011 were up 62% over last year's second quarter. Sales for the first half, however, were still down 7% compared with the first half of 2010 due to the limited availability of the product for most of the first half of this year.

I am pleased to report, however, that at the end of August we entered into a confidential settlement agreement with our Renacidin supplier which, among other things, provided that we would receive a per-bottle credit on future purchases of product until an agreed-upon settlement amount was reached. We believe that the agreed-upon amount will fully reimburse us for the losses we experienced as a result of our supplier's curtailment of production. Most of that settlement credit will accrue to us in the third quarter of 2011.

The second reason for the strong second quarter and six-month sales was an increase in sales of our personal care products, which were up 5.6% for the quarter and 10.1% for the first half of the year. Most of this increase was attributable to increased sales to ISP, our largest marketing partner. Sales to ISP for the second quarter were up over 20% compared with the second quarter of 2010, and were up almost 27% for the first half of 2011 compared with the same period in 2010.

In addition to increased sales, our financial condition continued to strengthen in the second quarter, with working capital increasing to over $12.5 million, an increase of almost $800,000 over working capital at the end of 2010. Our stockholders' equity is now over $13.8 million, up from just over $13 million at the end of 2010, and our current ratio remains very strong at 8.7 to 1.

We are continuing our efforts to expand the sales of our personal care products, and there are a number of major consumer products companies purchasing our Lubrajel products for a variety of cosmetic and other personal care products. We are also working with potential new customers for our medical lubricating gels. Foreign sales of both our personal care products and medical products continue to grow, and constitute over 50% of our personal care product sales.

We are also working closely with our marketing partners to evaluate some of the new products that are in development now, the most important of which is a new line of all-natural Lubrajel products. ISP has already given us feedback on some prototype formulations, and we are working closely with them to develop the most marketable product line that we can. We believe that the market for all-natural products is continuing to grow, and that if we are successful in developing this new product line we can bring in significant new revenue over the next few years. Our marketing partners are very excited about these development efforts, and we hope to have some formulations ready to show to our customers by the first quarter of next year.

Our new Unitwix II, a replacement for our current Unitwix product, saw its first sales recently, and we believe a number of our existing customers will switch to this new formulation, which is not only less expensive for them but also much more profitable for us. Unitwix is a cosmetic additive used as a thickener for oils and oil-based liquids. It is not a big revenue producer for us right now, but we are hopeful that the new lower pricing for this product will enable us to bring in new customers for which the old formulation was too expensive.

There are a number of other R&D projects on which we are working, and I will discuss them when they are further along in the development cycle. We will continue our efforts to expand our product line with new and unique products, and are very pleased with the results of the year to date. I am confident that our third quarter will be another strong one for us, and that we are on track to have the most profitable year ever.

Sincerely,

UNITED-GUARDIAN, INC.

Ken Globus

Ken Globus
President

RESULTS FOR THE THREE AND SIX MONTHS ENDED
JUNE 30, 2011 and JUNE 30, 2010
(UNAUDITED UNLESS OTHERWISE INDICATED)

STATEMENTS OF INCOME

	THREE MONTHS ENDED JUNE 30, 2011	THREE MONTHS ENDED JUNE 30, 2010	SIX MONTHS ENDED JUNE 30, 2011	SIX MONTHS ENDED JUNE 30, 2010
Net sales	$ 4,060,299	$ 3,734,552	$ 7,702,348	$ 7,311,467
Costs and expenses	2,329,076	2,953,703	4,310,812	4,986,319
Income from operations	1,731,223	780,849	3,391,536	2,325,148
Other income	83,817	132,876	149,887	225,146
Income before income taxes	1,815,040	913,725	3,541,423	2,550,294
Provision for income taxes	590,400	289,201	1,150,600	829,926
Net Income	$ 1,224,640	$ 624,524	$ 2,390,823	$ 1,720,368
Earnings per common share (Basic and Diluted)	$ 0.27	$ 0.13	$ 0.52	$ 0.35
Weighted average shares – basic and diluted	4,596,439	4,819,516	4,596,439	4,882,627

BALANCE SHEETS

ASSETS	JUNE 30, 2011	DECEMBER 31, 2010 (AUDITED)
Current assets:		
Cash and cash equivalents	$ 1,443,884	$ 1,514,589
Marketable securities	9,600,305	8,314,403
Accounts receivable, net of allowance for doubtful accounts of $23,000 at June 30, 2011 and December 31, 2010	1,694,656	1,090,711
Inventories (net)	1,027,730	1,321,389
Prepaid expenses and other current assets	200,502	148,240
Prepaid income taxes	---	182,575
Deferred income taxes	218,328	218,328
Total current assets	14,185,405	12,790,235

Property, plant and equipment:		
Land	69,000	69,000
Factory equipment and fixtures	3,676,823	3,650,283
Building and improvements	2,670,451	2,618,253
Waste disposal plant	133,532	133,532
Total property, plant and equipment	6,549,806	6,471,068
Less: Accumulated depreciation	5,311,040	5,261,908
Total property, plant and equipment, net	1,238,766	1,209,160
Other assets	56,508	75,344
TOTAL ASSETS	$ 15,480,679	$ 14,074,739

LIABILITIES AND STOCKHOLDERS' EQUITY

	JUNE 30, 2011 (UNAUDITED)	DECEMBER 31, 2010
Current liabilities:		
Accounts payable	$ 558,419	$ 208,244
Accrued expenses	1,002,685	815,996
Income taxes payable	62,725	---
Total current liabilities	1,623,829	1,024,240
Deferred income taxes	27,973	3,626
Stockholders' equity:		
Common stock $.10 par value, authorized, 10,000,000 shares; 4,596,439 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively.	459,644	459,644
Accumulated other comprehensive income (loss)	52,735	6,835
Retained earnings	13,316,498	12,580,394
Total stockholders' equity	13,828,877	13,046,873
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 15,480,679	$ 14,074,739

** Additional financial information can be found at the company's web site at www.u-g.com.**