



# UNITED-GUARDIAN, INC.

Corporate Divisions  
GUARDIAN LABORATORIES

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## **Third Quarter 2009 Report to Stockholders**

December 4, 2009

Dear Stockholder:

Once again I am happy to report that the company had an excellent third quarter, resulting in record earnings for the nine-month period that ended September 30th. Earnings for the nine-month period increased 20% from \$2,487,057 (\$0.50 per share) in 2008 to \$2,992,420 (\$0.60 per share) this year, and earnings for the three-month period increased 22% from \$911,494 (\$0.18 per share) to \$1,081,748 (\$0.22 per share).

Although sales for the third quarter were down slightly due to a shifting of some pharmaceutical orders into the first half of the year, sales for the first nine months of the year were still up 8% over last year, increasing from \$9,500,563 in 2008 to \$10,281,426 this year. Most of the increase was attributable to an increase in sales of the company's medical lubricant products, which increased by 41% over the same period last year.

One of the most significant factors in the increase in earnings was our success in reducing our cost of sales for both the three- and nine-month periods. For the 9-month period we were able to reduce cost of sales from 44% to 40%, and for the 3-month period there was approximately an 8% reduction, from 47% to 39%. This was primarily the result of having renegotiated the supply agreement for our most significant raw material. Although it is impossible to predict whether or not we will be able to achieve any further reductions in the cost of that raw material, we are confident that our current agreement will protect us against any significant near-term swings in the market price of that ingredient. This will enable us to keep our cost of goods as low as possible, and to minimize any price increases to our customers which, in this economy, is very important.

In regard to our balance sheet, the financial strength of the company continues to grow, with working capital increasing by \$2.2 million from \$13.2 million in 2008 to \$15.5 million at the end of the third quarter of this year. The current ratio remains an unusually strong 13 to 1, comparable to what it was at the end of the third quarter of last year. The Company also generated cash from operations of \$3,218,554, an increase of \$723,600 (29%) over the same period last year.

In my second quarter stockholders' letter I provided details on some of the products we had just launched. Those included three new products for the personal care market: **NATURAL POLYMER BLEND**; **EMOLIEN**; and **ESSENTIAL ELEMENTS (COPPER/ZINC PEPTIDES)**. Please refer to that previous letter for more detailed information on those products. Samples of some of the new personal care products are currently being evaluated by our marketing partners, and the rest will be shipped to them shortly. After their initial evaluation they will begin sending samples of the new products to their customers for their evaluation. This should take place over the next few months. We are hopeful that by the end of the first half of next year we will start to see orders for one or more of those products. I will provide further information on our progress as we begin to get feedback from both our marketing partners and their customers.

In my previous stockholders' letters I also discussed our recent introduction of a new medical product, our new **LUBRAJEL UT**. This is a new urological lubricant that has some additional properties that we believe may be of interest to the companies that currently market medical lubricants, especially catheter lubricants. It has been sampled to all of the major medical companies that have products in that market, and we have already received inquiries from some of those companies. We are following up on those inquiries, and are hopeful that the interest we have seen to date will result in new sales next year. We also intend to put further research efforts into developing additional products for the medical products market.

We have continued to weather the current economic downturn better than many other companies, which we attribute to our large customer base and the varied uses and broad distribution of our products. Since our products are used in both high-end and lower-cost personal care products, we believe that we have a significant advantage over other companies that have products that only target the high-end markets. We believe that the diversification of our product line and customer base will continue to help us get through this difficult economic period.

As a result of the strong sales and earnings for the first nine months of the year, and based on our projections for the remainder of the year, the Board of Directors, at its meeting on December 2<sup>nd</sup>, declared a dividend of \$0.32 per share, which will be paid on January 4, 2010 to all stockholders of record as of December 18, 2009. This will be the 14th consecutive year that the company has paid an end-of-year dividend, and we are once again pleased to be able to share our good fortune with our stockholders.

Based on our 9-month results, as well as our sales-to-date for the fourth quarter, we are confident that we will end the year on a very strong note, and are optimistic that this will be our most successful year ever.

Sincerely,

UNITED-GUARDIAN, INC.



Ken Globus  
President

**RESULTS FOR THE NINE AND THREE MONTHS ENDED  
SEPTEMBER 30, 2009 and SEPTEMBER 30, 2008  
(UNAUDITED)**

**CONSOLIDATED STATEMENTS OF INCOME**

	<b>NINE MONTHS ENDED SEPTEMBER 30, <u>2009</u>                  <u>2008</u></b>		<b>THREE MONTHS ENDED SEPTEMBER 30, <u>2009</u>                  <u>2008</u></b>	
Net sales	\$ 10,281,426	\$ 9,500,563	\$ 3,393,139	\$ 3,498,325
Costs and expenses	<u>6,076,136</u>	<u>6,149,536</u>	<u>1,858,838</u>	<u>2,260,725</u>
Income from operations	4,205,290	3,351,027	1,534,301	1,237,600
Other income	<u>274,430</u>	<u>352,530</u>	<u>89,347</u>	<u>112,894</u>
Income from operations before income taxes	4,479,720	3,703,557	1,623,648	1,350,494
Provision for income taxes	<u>1,487,300</u>	<u>1,216,500</u>	<u>541,900</u>	<u>439,000</u>
Net Income	\$ <u>2,992,420</u>	\$ <u>2,487,057</u>	\$ <u>1,081,748</u>	\$ <u>911,494</u>
Earnings per common share (Basic and Diluted)	\$ <u>0.60</u>	\$ <u>0.50</u>	\$ <u>0.22</u>	\$ <u>0.18</u>

**CONSOLIDATED BALANCE SHEETS**

**ASSETS**

	<b>September 30, <u>2009</u> (UNAUDITED)</b>	<b>DECEMBER 31, <u>2008</u></b>
Current assets	\$ 16,722,169	\$ 15,758,545
Certificate of deposit maturing October, 2010	105,437	271,976
Property, plant and equipment (less depreciation)	860,629	951,979
Other assets	<u>254,116</u>	<u>274,276</u>
Total assets	\$ <u>17,942,351</u>	\$ <u>17,283,623</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

	<b>JUNE 30, <u>2008</u> (UNAUDITED)</b>	<b>DECEMBER 31, <u>2007</u></b>
Current liabilities	\$ 1,270,323	\$ 2,548,712
Deferred Income Taxes	142,890	28,616
Stockholders' equity	<u>16,529,138</u>	<u>14,706,295</u>
Total liabilities and stockholders' equity	\$ <u>17,942,351</u>	\$ <u>17,283,623</u>

**PLEASE NOTE:**

This document contains both historical and "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements about the company's expectations or beliefs concerning future events, such as financial performance, business prospects, and similar matters, are being made in reliance upon the "safe harbor" provisions of that Act. Such statements are subject to a variety of factors that could cause our actual results or performance to differ materially from the anticipated results or performance expressed or implied by such forward-looking statements. For further information about the risks and uncertainties that may affect the company's business please refer to the company's reports and filings with the Securities and Exchange Commission.

Additional financial information can also be found at the company's web site at [www.u-g.com](http://www.u-g.com).