



UNITED-GUARDIAN, INC.

Corporate Divisions
GUARDIAN LABORATORIES

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First Quarter 2011 Report to Stockholders

June 7, 2011

Dear Stockholder:

I am pleased to report that the first quarter of 2011 was our strongest first quarter ever, with earnings per share increasing to \$0.25 per share from \$0.22 per share in the first quarter of 2010. Revenue was also up slightly from last year to over \$3.6 million, and would have been substantially higher if it wasn't for the fact that one of our pharmaceutical products was still unavailable for sale (which I will discuss in more detail later). The fact that we were able to reach these levels of sales and earnings even without our most important pharmaceutical product made the first quarter results that much more remarkable.

One of the reasons for our strong first quarter was a 15% increase in sales of our personal care products compared with the same period last year. We had particularly strong sales to our largest marketing partner, International Specialty Products, whose purchases increased 33% over last year's first quarter. This was partially offset by a decrease in sales to some of the company's other marketing partners.

Pharmaceutical sales, however, decreased 63% from last year's first quarter, which was primarily the result of a temporary curtailment in production of Renacidin® Irrigation, our most important pharmaceutical product. As I have mentioned in detail in previous letters, the company that manufactures that product for us had to discontinue production due to regulatory issues that needed to be addressed. They were unable to produce four batches of product for us that should have been delivered last year. As a result, we had to allocate product to customers beginning in November of last year, and were only able to ship about 20% of what was being ordered, until our inventory was completely depleted in February.

We have been working with that supplier since last year to resume production as quickly as possible. At the end of April they resumed production, and in mid-May we finally received new batches. I am happy to report that we now have sufficient inventory to fill all orders, and have been shipping out substantial amounts of product for the past few weeks. It is our intention to recover from the supplier all of the net income we lost as a result of this production curtailment.

Sales of our medical (non-pharmaceutical) products also continues to increase, with sales up 32% over last year's first quarter. We believe that this will continue to be a growing market for us.

In addition to our strong sales and earnings, our balance sheet also continued to strengthen, with stockholders' equity reaching \$14.2 million, compared with \$13.0 million at the end of 2010, and working capital increasing from \$11.8 million to \$13.0 million. Our current ratio remains unusually strong at 9.6 to 1, and our stock price reached the highest closing price in recent memory, closing at \$15.63 on May 24th. It was always our belief that as our earnings increased so would our stock price, and that has proven to be the case as our earnings have become progressively stronger. As of the writing of this letter our stock price remains very strong at around \$15 per share.

As a result of the strong first quarter results, as well as strong sales for April, the Board of Directors, at its meeting on May 11th, declared a cash dividend of \$0.36 per share, to be paid on June 13, 2011 to all stockholders of record as of the close of business on May 30, 2011. This dividend represented a 20% increase over the \$0.30 per share dividend paid in the first half of 2010. This is now the 16th consecutive year that we have paid a dividend. We are pleased to once again be able to have our stockholders share in what we have been able to achieve.

We are continuing to work on new projects, particularly for the personal care products market. Most of our R&D time is now being spent on a new line of all-natural Lubrajel products. Lubrajel is our proprietary line of water-based moisturizing and lubricating gels, and is by far our largest and most important product line. We believe that the demand for natural products will continue to increase in the coming years, and that a natural form or forms of Lubrajel would be well received in the marketplace. We hope to have this new line ready for sampling by the end of the year.

We have also completed work on Unitwix II, a replacement for our current Unitwix product, which we believe will be more competitive in the marketplace due to its much lower cost. Unitwix is a cosmetic additive used as a thickener for oils and oil-based liquids. The costs of the raw materials for this product have been increasing steadily over the past few years, which is making it less marketable and less profitable. The new product will be significantly lower in cost, and we believe that it will be equally effective. We are hopeful that because of that we will be able not only to increase our profit margins, which are very low on this particular product right now, but also attract new customers for which the current product is not practical due to the high cost.

Overall we are very pleased with the results from the first quarter, with many new potential customers and with the development efforts for our new line of all-natural Lubrajel products looking very promising. With sales for both April and May being very strong, we are optimistic that our second quarter is going to be a very profitable one as well.

Sincerely,

UNITED-GUARDIAN, INC.

A handwritten signature in black ink, appearing to read "Ken Globe". The signature is written in a cursive, flowing style.

**RESULTS FOR THE FIRST QUARTER ENDED
MARCH 31, 2011 and MARCH 31, 2010**

INCOME STATEMENTS

	THREE MONTHS ENDED MARCH 31,	
	<u>2011</u>	<u>2010</u>
Net sales	\$ 3,642,049	\$ 3,576,915
Costs and expenses	<u>1,981,736</u>	<u>2,032,616</u>
Income from operations	1,660,313	1,544,299
Other income	<u>66,070</u>	<u>92,270</u>
Income before income taxes	1,726,383	1,636,569
Provision for income taxes	<u>560,200</u>	<u>540,725</u>
Net Income	\$ <u>1,166,183</u>	\$ <u>1,095,844</u>
Earnings per common share (basic and diluted):	\$ <u>0.25</u>	\$ <u>0.22</u>
Weighted average shares – basic and diluted	<u>4,596,439</u>	<u>4,946,439</u>

BALANCE SHEETS

<u>ASSETS</u>	MARCH 31, <u>2011</u>	DECEMBER 31, <u>2010</u>
	(UNAUDITED)	
Current assets:	\$ 14,504,711	\$ 12,790,235
Total property, plant and equipment, net	1,173,474	1,209,160
Other assets	<u>65,926</u>	<u>75,344</u>
TOTAL ASSETS	\$ <u>15,744,111</u>	\$ <u>14,074,739</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

	MARCH 31, <u>2011</u>	DECEMBER 31, <u>2010</u>
	(UNAUDITED)	
Total current liabilities	\$ 1,514,332	\$ 1,024,240
Deferred income taxes	8,165	3,626
Stockholders' equity	<u>14,221,614</u>	<u>13,046,873</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ <u>15,744,111</u>	\$ <u>14,074,739</u>