2010 ANNUAL REPORT

to the Stockholders of

UNITED-GUARDIAN, INC.

April 15, 2011

Dear Stockholder,

Once again I am happy to report that we had another record year, reaching new highs in both sales and earnings per share. Sales set a new company record of $13,723,074, which was a 3.4% increase over the $13,276,984 in sales in 2009. Even though earnings after taxes were down slightly due to the one-time pension termination expense that we incurred in the second quarter of the year (see below), earnings per share actually increased from $0.78 in 2009 to $0.80 due to fewer shares being outstanding this year.

While the increase in earnings may have only been $0.02 per share, it is important to note that we managed to do this despite the fact that in the second quarter of 2010 we incurred a one-time expense of approximately $850,000 in connection with the termination of our defined benefit pension plan. This resulted in a $0.12 per share reduction in our second quarter after-tax earnings. Had it not been for that one-time expense, our earnings for the year would have been approximately $0.92 per share, which would have been an increase of 18% over last year. Now that we no longer have the burden of that defined benefit pension plan our future pension plan administrative costs are going to be significantly lower, so over time we will certainly benefit from having terminated this plan, even if it did negatively impact our financial results this year.

On another positive note, sales of our personal care products, including our cosmetic ingredients, increased about 5% this year, despite the continuing weakness in the global economy. Most of that increase came from sales to some of our European marketing partners, as well as to our marketing partner in Korea. We believe that the improving economies in those areas, along with the resultant increase in demand for personal care and cosmetic products, accounted for the increase. Sales of these products in 2010 to our largest marketing partner, International Specialty Products ("ISP"), were down by approximately 4%, but we believe that this was due more to the timing of orders rather than any decline in business. This is supported by the fact that ISP's sales of our products to its customers were up by about 14% for the year.

On the pharmaceutical side sales were down about 4%, primarily due to our inability to fill all of the orders for our Renacidin® Irrigation product. This product has been manufactured for us by one of the country's largest pharmaceutical manufacturers. The manufacturing facility that had been producing the product for us for the past four years had to suspend all of its manufacturing due to regulatory issues that were brought to its attention by the Food and Drug Administration ("FDA"). Although the issues cited by the FDA did not affect the quality of our product, the supplier was not allowed to resume production until it complied with the FDA's requirements, one of which was to re-validate the manufacturing processes of all of the products made in that facility. As a result, four batches of product that we expected to receive in 2010 were not produced, and we were forced to start allocating product to customers in November, resulting in a loss of about 60% of Renacidin sales for those months. This continued until the end of February, when we ran out of product completely.

That manufacturing facility is now back up and running and they are in the process of re-validating our product. The current schedule calls for production of Renacidin to resume in April, and if that happens we will receive product by the end of May. We also received permission in March from the FDA to sell a batch of product that had been manufactured in 2009 but was never released to us for sale due to some issues that came up during the manufacturing process. We were able to confirm that the batch met all specifications, and as a result the FDA approved its sale. We received that batch in house on March 18th, and have now begun selling the product again, albeit on allocation once again. We are hopeful that by allocating orders we will be able to make this batch last until sometime in May, which is when we hope to have the new production in house, at which time we can begin once again filling all orders.

We are currently estimating that we lost approximately $150,000 in gross sales of Renacidin in 2010, and expect to lose another $400,000 in gross sales by the time sales can resume completely. We have already notified the supplier that we intend to hold it responsible for all losses incurred by us in connection with its failure to supply product to us in accordance with our supply agreement. We plan to address this issue with them once full production has resumed and we have a more precise estimate of our damages.

As a result of our continuing strong sales and earnings, the Board of Directors declared dividends totaling $0.63 in 2010, with $0.30 having been declared in May 2010, and $0.33 declared in December 2010. This is an increase of $0.03 per share (5%) compared with the $0.60 in dividends that the Board declared in 2009. This is the 15th consecutive year that we have paid a dividend, and once again we are very pleased to be able to share our success with our stockholders. We continue to believe that our payment of dividends is one of the reasons that investors continue to be interested in our company, and why our stock price has held up as well as it has.

In regard to new product development, we have continued to focus our development efforts on new and unique products for the personal care market, since we believe that is where our expertise is the greatest and where there is the most potential for future growth. We are continuing to work with our marketing partners to come up with ideas for new products. The most exciting area of our current development efforts is in connection with the development of an all natural form of Lubrajel. The Lubrajel line continues to be our most important and successful line of products, and we believe that the demand for natural products will continue to increase. We believe that a natural form of Lubrajel would have tremendous marketing potential. We expect those development efforts to continue throughout this year, and hope to have new products ready for marketing next year. We are also working with a global medical products company that currently buys one of our medical lubricants and is working with us to develop a new medical lubricant for them.

Our other significant event in terms of new product development has been our UNITWIX II. Development work on this product was completed earlier this year. The product is an alternative formulation of our existing Unitwix product, which is a cosmetic additive used as a thickener for oils and oil-based liquids. We have a number of customers for the original version of this product, one of which is one of the largest global cosmetic companies. Unfortunately, our raw material costs for this product have risen so dramatically over the last few years that it was becoming prohibitively expensive for our customers. We felt it was important for the future of the product to develop a new formulation that would be less expensive, thereby enabling us to market it at a substantially lower price than the current formulation while at the same time giving us a substantially higher profit margin. Although this product does not currently contribute much to our overall revenue, we are hopeful that the new formulation, at its much lower price, will enable us to increase sales by bringing in new customers for which the previous formulation was not practical due to the high cost. We have just started sampling this new product to customers, and expect to get feedback over the next few months.

On the disappointing side, Natramul, our new natural polymer blend, which I have discussed in previous stockholders letters, did not prove to have the marketing potential that we thought it might due to its high cost. Although we still believe it is an excellent product, the feedback from our marketing partners was that although there is a need in the market for a natural product like ours, at the current time its relatively high price will make it uncompetitive in the marketplace. So for the time being this product is being shelved and we will concentrate our efforts on products that we believe will have greater market potential.

We are also putting new efforts into pursuing joint development projects with other companies. Although we have an excellent group of research chemists, we believe that in order to expand our product offerings it would be in our best interests to enlist the aid of other companies that can bring to the table new ideas, technologies, and expertise that would have synergies with our own. This effort will include International Specialty Products, our largest marketing partner, as well another global chemical company that has approached us about working with them using some of their products. We are hopeful that this will enable us to develop products that we might not be able to develop on our own.

Overall we are very pleased with last year's financial results, and are optimistic that with more aggressive marketing and development efforts we will be able to continue to expand the marketing of our products and bring new and exciting products to the marketplace, both in the areas of personal care products and medical lubricants. We are looking forward to working with both new and existing partners to continue to increase sales, and hope to continue to share our success with our stockholders in the years to come.

Sincerely,

UNITED-GUARDIAN, INC.

Ken Globus

Ken Globus
President