



2008 ANNUAL REPORT

to the Stockholders of

UNITED-GUARDIAN, INC.

April 13, 2009

Dear Stockholder,

This past year has been another strong one for us, despite the economic turmoil that has been impacting the financial health of so many companies. Our products are used extensively by many consumer products companies around the world, many of which have reported sales declines. Despite that, our revenues last year were actually up 3.4% from \$11,888,562 in 2007 to \$12,292,147 in 2008. We did experience a slight decline in net income from continuing operations, from \$3,427,085 (\$0.69 per share) in 2007 to \$3,162,931 (\$0.64 per share) in 2008. This was due primarily to higher raw material costs, especially for one of our key raw materials, as well as higher freight and energy costs that resulted from the significant spike in fuel prices that the country experienced last year.

As a result of the strong year we had in 2008, the Board of Directors, at its meeting in December, authorized the payment of a year-end dividend of \$0.28 per share. When added to the \$0.27 per share mid-year dividend that was declared in May of last year, the total amount of dividends declared last year was \$0.55 per share. Based on a stock price of \$7.00 per share, which is the approximate price of our stock as of the writing of this letter, that equates to a dividend yield of almost 8%! Even after paying those dividends our balance sheet remains unusually strong, with stockholders equity increasing to \$14.7 million and our current ratio ending the year at a very healthy 6.1 to 1.

Revenue from all three of our major product lines increased last year. Revenue from our personal care products line increased slightly, which was primarily attributable to price increases that we implemented during the year, while revenue from our pharmaceutical products line increased by about 6%, of which about 4% was due to a price increase. Over the years, sales of our pharmaceutical products have remained relatively stable from year to year. In regard to our non-pharmaceutical medical products, sales grew by 13% last year, of which about 7% was attributable to a price increase. This is one of our product lines that we think will continue to grow, and is an area in which we plan to focus some of the efforts of our new marketing consultant (more on that below). Considering the economic climate right now, we have been very pleased at the current level of sales, especially sales so far in the first quarter of this year.

We are continuing to work with our marketing partners to develop new products for the personal care and medical markets. While sales of our some of our LUBRAJEL® products continue to increase as our markets continue to expand, we are not relying on our current product lines alone to increase sales. We are continuing to look for new marketing opportunities, and are currently working on several new products, some of which have been in development since early last year, and some of which are new. Here is a brief look at some of our current research and development efforts:

- **EMOLIEN:** A new water-based emollient and moisturizer. It is intended to be a cost-effective emollient (0.5% to 0.2%) to increase lubricity and moisturization for creams, lotions and gels, as well as other potential uses. This product is currently being evaluated by International Specialty Products ("ISP"), our largest marketing partner, and we expect to formally introduce this product to our other marketing partners this spring.

- **ESSENTIAL ELEMENTS (COPPER/ZINC PEPTIDES):** A new product for skin and hair care applications. We have filed a patent on this product, and I will provide further details as that process proceeds. Without getting too specific, the product is intended to be used to maintain and improve healthy cellular metabolism. As with Emolien, this product is also being evaluated by ISP and we expect to begin full marketing in the second quarter of this year.
- **NATURAL POLYMER BLEND:** A line of polysaccharide polymers from natural sources (sourced from vegetables and micro-organisms), suitable as a thickener and emulsion stabilizer. Our development work on this product is almost complete, and we expect to send samples out to our marketing partners for evaluation later this year.
- **LUBRAJEL UT:** A form of LUBRAJEL with a new ingredient that may have medical-related uses. This product is still under development and will be discussed more fully after the appropriate patent filings are made. Since this is intended to be a medical product it will not be marketed by our regular marketing partners, and we will be working with our new consultant to develop a marketing plan for this product if the development work is successful.
- **CLORONINE:** a powerful disinfectant, germicide, and sanitizer for disinfecting medical and surgical instruments and equipment. The product was developed many years ago, but has since been reformulated. The Company has been working with an Ohio-based company that is interested in finding new markets for CLORONINE as a disinfecting agent.

We will be meeting with our marketing partners in April to discuss these products and work together to develop new ideas for new products. With the extensive global marketing network we currently have in place, we have all the resources we need to quickly get new personal care products into the marketplace. The difficulty is in coming up with ideas for new products, and that is what we hope to achieve by regularly meeting with our marketing partners and getting their feedback.

As I mentioned previously, we are working with a new marketing consultant to help us bring more of our products to market and expand the market for some of our existing products. She is taking the place of our previous marketing consultant, who was unable to continue for personal reasons. Our new consultant has extensive marketing experience, and actually worked with our products years ago while she was employed by ISP in Asia. We are very pleased that she has decided to work with us, and are confident that she is the right person for the job. She started her work on March 1st, and has already been actively conducting market research to see where there may be new opportunities for us. We are very excited to be working with her, and I will continue to report on her progress.

The first quarter of this year has been unusually strong, and has actually been somewhat of a surprise to us based on how bad the global economy is right now. It is too early to know whether we will be able to sustain this level of sales, but for now we are very pleased with our current sales levels, and are looking forward to another profitable year.

Sincerely,

UNITED-GUARDIAN, INC.



Ken Globus
President