



# UNITED-GUARDIAN, INC.

Corporate Divisions  
GUARDIAN LABORATORIES

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## **Third Quarter 2008 Report to Stockholders**

December 10, 2008

Dear Stockholder:

I am pleased to report that despite the current economic downturn, we had another very strong and profitable quarter, with third quarter revenue actually increasing by 32% over the same quarter last year. Revenue for the quarter was approximately \$3.50 million compared with \$2.65 million for the third quarter of 2007. Year-to-date revenue increased slightly from \$9.4 million to \$9.5 million.

Earnings for the quarter were also up, increasing from \$783,000 (\$0.16 per share) to \$911,000 (\$0.18 per share), a 16% increase over last year's third quarter. While earnings for the first nine months of the year (\$0.50 per share vs. \$0.54 per share) are still slightly behind last year due to higher costs and expenses this year, the year-to-date difference has now been reduced to \$.04 per share from the \$0.06 it had been at the end of the second quarter. This is attributable to the unusually strong first quarter we had in 2007.

As a result of the strong year we have had so far this year, the Board of Directors, at its meeting on December 3rd, approved the issuance of a \$0.28 per share cash dividend, which will be paid on January 5, 2009 to all stockholders of record as of December 15, 2008. Since we do not foresee a need for these funds in the near future, the Board believes that the issuance of a dividend is in the best interests of the company and its stockholders. We believe that our dividend payment history is one reason why our stock price this year has declined only about one-third as much as the S&P 500. After payment of the dividend, the company will continue to have more than adequate cash reserves to fund our current and anticipated research and development projects.

We are continuing to see increases in some of our raw materials, energy, payroll, and transportation costs, but we hope to be able to recover most of those increases with relatively minor price increases going into 2009. We are continuing to look to new ways to reduce our costs, one of which is to continue to increase the size of our batches by introducing larger capacity manufacturing equipment. This makes production more efficient and will lead to a reduction in labor costs. We are currently in the process of putting into place our largest manufacturing tank ever, along with production enhancements and efficiencies that should enable us to reduce the time it takes to manufacture a batch of product. This will enable us to continue to keep pace with any increased demand for product without increasing our payroll costs. We intend to continue our efforts to keep our costs contained as much as possible, and try to recover as much of these cost increases as we can while keeping in mind that the strengthening of the dollar against the Euro will be putting pricing pressures on our European distributors. We intend to do whatever we can do make sure they remain competitive.

We have just completed an in-house clinical test on one of the two new personal care products we introduced to our marketing partners earlier this year, and intend to begin actively marketing it in the first half of 2009. It was developed to accelerate collagen production in the skin, and there appears to be a measurable improvement in collagen levels for those people whose collagen levels were low. We are in the process of analyzing the data now, which we will then provide to our marketing partners to assist them in their marketing efforts.

The other skin-care product we have been developing is a new emollient that will fit in well with our current line of skin moisturizers. We have just completed a reformulation of this product to give it enhanced stability, and we expect to begin sampling it to our marketing partners shortly.

We are continuing to work on a new urological product that is intended to be a companion product to our line of catheter lubricants. There are still various formulations that we are working with to find the best combination of stability and efficacy, and it is still very early in the development cycle. We will still need to confirm that it will provide us with the benefit we are looking for. I hope to report on this further by the time our annual report to stockholders comes out in April.

We now have two potential candidates to replace the marketing consultant that had been working with us to develop a market for some of the products of ours that are not being actively marketed at the present time, and to expand the market for some of our other products. Unfortunately our previous consultant did not work out the way we had hoped. This was partly due to personal issues that prevented her from devoting the time needed to really make some progress, and partly because of the difficulty of working her way through the bureaucracy in some of the large companies with which she was working to find the right people to talk to about our products. We expect to initiate contact with both of these potential candidates over the next few weeks, and to make a decision shortly after the first of the year. We are hoping that our new consultant will be able to devote more time to the effort and find some new markets for our products.

Sales for the first two months of the fourth quarter were just short of the average monthly sales levels for the first nine months of the year, so in the next few weeks we will complete what has been another very profitable year, which is saying a lot when you look at the declining financial condition of so many other companies. We are hopeful that by continuing to introduce new products we will be able to continue to grow our sales, despite the current economic conditions. However, it would be unrealistic to expect that we will be totally immune from what is taking place nationally and globally. Sales of health and beauty care products is one segment of the consumer market that tends to remain strong longer than many other segments, but if the economy continues to decline I would expect that at some point sales of these products will be impacted, which means that our customers will need less product from us and our sales will be impacted as well. It is anybody's guess as to what the future will bring and how we will be affected by it, but we will continue to do everything we can to remain competitive and to continue to expand our business, despite the economic hurdles that clearly lay ahead for all of us.

Sincerely,

UNITED-GUARDIAN, INC.

A handwritten signature in black ink that reads "Ken Globus". The signature is written in a cursive, flowing style.

Ken Globus  
President

RESULTS FOR THE THIRD QUARTER ENDED  
 SEPTEMBER 30, 2008 and SEPTEMBER 30, 2007  
 (UNAUDITED)

**CONSOLIDATED STATEMENTS OF INCOME**

	NINE MONTHS ENDED SEPTEMBER 30,		THREE MONTHS ENDED SEPTEMBER 30,	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Revenue from continuing operations	\$ <u>9,500,563</u>	\$ <u>9,408,156</u>	\$ <u>3,498,325</u>	\$ <u>2,647,450</u>
Costs and expenses	<u>6,149,536</u>	<u>5,660,220</u>	<u>2,260,725</u>	<u>1,533,105</u>
Operating income from continuing Operations	3,351,027	3,747,936	1,237,600	1,114,345
Other income	<u>352,530</u>	<u>430,893</u>	<u>112,894</u>	<u>140,499</u>
Income from continuing operations before income taxes	3,703,557	4,178,829	1,350,494	1,254,844
Provision for income taxes	<u>1,216,500</u>	<u>1,482,300</u>	<u>439,000</u>	<u>442,700</u>
Income from continuing operations	2,487,057	2,696,529	911,494	812,144
Loss from discontinued operations, net of income tax benefit	---	<u>(18,009)</u>	---	<u>(28,939)</u>
Net Income	\$ <u>2,487,057</u>	\$ <u>2,678,520</u>	\$ <u>911,494</u>	\$ <u>783,205</u>
Earnings per common share (Basic and Diluted)	\$ <u>0.50</u>	\$ <u>0.54</u>	\$ <u>0.18</u>	\$ <u>0.16</u>

## **CONSOLIDATED BALANCE SHEETS** **(Summarized)**

<b><u>ASSETS</u></b>	SEPTEMBER 30, <u>2008</u> (UNAUDITED)	DECEMBER 31, <u>2007</u>
Current assets	<u>15,270,822</u>	<u>15,758,545</u>
Property, plant and equipment (net of accumulated depreciation)	<u>923,615</u>	<u>953,397</u>
Other assets	<u>503,337</u>	<u>322,526</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>16,697,774</u></b>	<b>\$ <u>17,034,468</u></b>

### **LIABILITIES AND STOCKHOLDERS' EQUITY**

	SEPTEMBER 30, <u>2008</u> (UNAUDITED)	DECEMBER 31, <u>2007</u>
Current liabilities	<u>1,171,247</u>	<u>2,357,853</u>
Long term liabilities	<u>38,230</u>	<u>146,519</u>
Stockholders' equity	<u>15,488,297</u>	<u>14,530,096</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ <u>16,697,774</u></b>	<b>\$ <u>17,034,468</u></b>

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

#### **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).