



# 2007 ANNUAL REPORT

to the Stockholders of

## UNITED-GUARDIAN, INC.

April 15, 2008

Dear Stockholder,

Once again I am pleased to report that we had another year of record earnings and increased sales, with earnings for the year up 27% and sales up 6% over last year. This resulted in an increase of \$0.15 per share in earnings from continuing operations (from \$0.54 in 2006 to \$0.69 in 2007), and a total increase of \$0.17 per share from both continuing and discontinued operations (from \$0.55 in 2006 to \$0.72 in 2007). Sales from continuing operations alone increased from \$11,207,903 to \$11,888,562.

In addition to the increase in sales and earnings, our financial strength also grew, with working capital increasing from \$12,983,634 at December 31, 2006 to \$13,400,692 at December 31, 2007, and our current ratio ending the year at a very strong 6.7 to 1.

The revenue increase for the year was primarily the result of two factors. The first was the increase in revenue from our personal care product lines, which grew almost 10% in 2007. Most of that revenue increase was from increased sales of our Lubrajel line of cosmetic ingredients. International Specialty Products ("ISP"), our largest global marketing partner, was responsible for most of that increase, with our sales to ISP increasing 20% compared with 2006. Overall, sales of our Lubrajel products increased almost 7% in 2007.

The second factor was the increased revenue from sales of our two pharmaceutical products. Although there was some increase in volume, the revenue increase was primarily the result of a price increase that went into effect on March 1, 2007. Revenue from our two pharmaceutical products increased almost 6% in 2007.

As I hope all of our stockholders know by now, in December we sold our Eastern Chemical business to Pfaltz & Bauer, Inc., a company that has been a long-time customer and competitor of Eastern. We had contemplated selling the Eastern operation for several years. The continuing decline in Eastern's sales, along with the imminent retirement of Eastern's long-time manager, made it clear that the time was right, and fortunately the timing was also right for Pfaltz & Bauer. Because of the steady decline in Eastern's sales over the past few years, we do not expect there to be any noticeable impact on earnings, which may actually increase due to the elimination of some expenses. We also believe that the sale of that business will now enable us to concentrate all of our efforts on the growth of the Guardian Laboratories division. It should be noted that Eastern's sales are not included in our sales figures for either 2007 or 2006, since it is treated as a discontinued operation for the entire period.

As a result of the strong sales and earnings for the year, we were once again able to share some of those earnings with our stockholders. In May and December of 2007 the Board of Directors declared semi-annual dividends totaling \$0.55 per share, compared with the \$0.47 per share total that was declared in May and December of 2006, an increase of 17%. We believe that our payment of dividends is one of the reasons our stock price has remained strong, despite the tremendous fluctuations in the stock market this past year. This indicates to us that investors continue to be attracted to companies like ours, whose earnings have remained strong and which have continued to pay a reasonable share of those earnings to their shareholders.

In regard to new product development, we continue to believe that the best use of our research and development efforts is in developing new products for the personal care market. We are working closely with our marketing partners, particularly ISP, not only to find new markets for our existing products, but also to expand our efforts to determine the kinds of products the customers are looking for and try to develop new and unique products to fill those needs. However, while we certainly welcome the input and assistance of our marketing partners, we do not rely solely on that, and are continuing our internal efforts to develop new products based on our own ideas. Here are just some of the products under development at the present time, all in various stages of their development cycle:

- **LUBRAJEL II:** This product line was developed to recapture some of the market share that the Company had lost over the years to some of its competitors, and to enhance the properties of the existing LUBRAJEL formulations. LUBRAJEL II XD was the first product developed pursuant to this project, and we hope to expand this product line over the next few years, introducing new formulations with enhanced properties over competitive products.
- **LUBRASIL II:** The LUBRASIL II line was developed to incorporate significantly higher levels of silicone into LUBRAJEL than was previously possible with the original LUBRASIL products, thereby making it more economical to the end user. LUBRASIL II DM was the first product in this new line, followed by LUBRASIL II SB. Although these products were introduced in 2007, the active marketing of these new products by our distributors will not begin until later this year after their internal testing is completed and new sample formulations and marketing literature are completed.
- **CLORONINE:** CLORONINE was developed as a powerful disinfectant, germicide, and sanitizer for disinfecting medical and surgical instruments and equipment. We have been working with an Ohio company on some new uses, and we have been told that an application for a new agricultural use for the product is pending with the appropriate regulatory agencies. We are also developing a new disinfectant based on chlorine dioxide that we hope to market as a powerful industrial disinfectant.
- **EMOLIEN:** This is a new water-based emollient and moisturizer with some unique properties. 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 being introduced to our marketing partners this spring for evaluation.
- **ANTISEPTIC POLYMER:** This product is in the very early stages of development. It is a new polymer that will have inherent antiseptic properties. We have already filed a provisional patent application, and are continuing our development work.
- **ESSENTIAL ELEMENTS:** An exciting new product for skin and hair care applications. The specifics cannot be disclosed until patentability issues are investigated further, but the product would be used to maintain and improve healthy cellular metabolism. We expect to introduce this product to our marketing partners for evaluation this spring, along with the Emolien.

These are just some of our ongoing research and development projects. While there is no guarantee that we will be successful in developing all of these products, we are excited about the market potential if we are successful with even a few of them.

In my previous letters I had mentioned that we had retained a marketing consultant to assist us in finding companies that might be interested in using some of our medical products, or in working with us to develop new medical products. Unfortunately, for a number of reasons, both personal and business, our consultant was not successful in bringing in any new customers. In particular, while she found much interest at the initial levels of some of the medical products companies, she found it very difficult to reach the right marketing people at the higher levels, finding that many companies were not interested in products that were not developed internally. We are now looking into retaining a new consultant to not only continue and expand upon the efforts that have already been made, but also to bring some new ideas to the table. We are also planning to expand our focus beyond medical products to some of our specialty industrial products, many of which we believe have excellent marketing potential.

We are looking forward to the continuing challenge of finding new and unique products to bring to our customers. With an extensive global distribution system already in place, we are in an excellent position to quickly bring new products to market, especially in the personal care industry. We expect this to be another year of growth and profitability for the company, and we will continue to keep our stockholders apprised of our progress on our many development projects.

Sincerely,

UNITED-GUARDIAN, INC.



Ken Globus  
President