U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-KSB

(Mark One)

[X] ANNUAL REPORT UNDER SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006.

OR

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-10526

UNITED-GUARDIAN, INC.
(Name of small business issuer in its charter)

Delaware	11-1719724
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
230 Marcus Blvd., Hauppauge, NY	11788
(Address of principal executive offices)	(Zip Code)

Issuer's telephone number, including area code: (631) 273-0900

Securities registered pursuant to Section l2(b) of the Exchange Act: None

Title of each class: Common Stock, $.10 par value

Name of each exchange on which registered: American Stock Exchange

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. [ ]

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or l5(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

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Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)

Yes [ ] No [X]

The registrant's revenues for the fiscal year ended December 31, 2006 were $12,195,672.

On March 1, 2007 the aggregate market value of the Registrant's Common Stock (based upon the closing sales price of such shares on the American Stock Exchange as reported in The Wall Street Journal) held by non-affiliates of the Registrant was approximately $21,012,600 (Aggregate market value has been estimated solely for the purposes of this report. For the purpose of this report it has been assumed that all officers and Directors of the Registrant, as well as all stockholders holding 10% or more of Registrant's stock, are affiliates of the Registrant. The statements made herein shall not be construed as an admission for determining the affiliate status of any person.)

As of March 1, 2007 the registrant had issued 5,004,739 shares of Common Stock, $.10 par value per share ("Common Stock"), of which 4,942,539 shares were outstanding and 62,200 shares were held as Treasury stock.

DOCUMENTS INCORPORATED BY REFERENCE:

Certain information required by Part III (portions of Item 9, as well as Items 10, 11, and 12) is incorporated by reference to the registrant's definitive proxy statement for the 2007 annual meeting of stockholders ("2007 Proxy Statement"), which, pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, is to be filed with the Securities and Exchange Commission no later than 120 days after registrant's fiscal year end.

Transitional Small Business Disclosure Format (check one): Yes [ ] No [X]

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This annual report on Form 10-KSB contains both historical and "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, which provides a safe harbor for forward-looking statements by the Registrant about its expectations or beliefs concerning future events, such as financial performance, business prospects, and similar matters. The Registrant desires to take advantage of such "safe harbor" provisions and is including this statement for that express purpose. Words such as "anticipates", "believes", "expects", "intends", "future", and similar expressions identify forward-looking statements. Any such "forward-looking" statements in this report reflect the Registrant's current views with respect to future events and financial performance, and are subject to a variety of factors that could cause Registrant's actual results or performance to differ materially from historical results or from the anticipated results or performance expressed or implied by such forward-looking statements. Because of such factors, there can be no assurance that the actual results or developments anticipated by the Registrant will be realized or, even if substantially realized, that they will have the anticipated results. The risks and uncertainties that may affect Registrant's business include, but are not limited to: economic conditions, governmental regulations, technological advances, pricing and competition, acceptance by the marketplace of new products, retention of key personnel, the sufficiency of financial resources to sustain and expand Registrant's operations, and other factors described in this report and in prior filings with the United States Securities and Exchange Commission ("S.E.C.") Readers should not place undue reliance on such forward-looking statements, which speak only as of the date hereof, and should be aware that except as may be otherwise legally required of Registrant, Registrant undertakes no obligation to publicly revise any such forward-looking statements to reflect events or circumstances that may arise after the date hereof.

PART I

Item 1. Description of Business

(a) General Development of Business

United-Guardian, Inc. ("United" or "Registrant") is a Delaware corporation that, through its Guardian Laboratories Division ("Guardian"), conducts research, product development, manufacturing and marketing of cosmetic ingredients, personal and health care products, pharmaceuticals, and specialty industrial products. United also distributes an extensive line of fine organic chemicals, research chemicals, test solutions, indicators, dyes and reagents through its wholly-owned subsidiary, Eastern Chemical Corporation ("Eastern"). Unless otherwise specified or indicated by the context, "Company" shall refer to United-Guardian, Inc. as well as its divisions and subsidiaries.

United's predecessor, United International Research Corp. (which name was later changed to United International Research, Inc. ("UIR"), was founded and incorporated in New York in 1942 by Dr. Alfred R. Globus, United's Chairman and Director of Research. On February 10, 1982, a merger took place between UIR and Guardian Chemical Corp. ("GCC"), an affiliate of UIR, whereby GCC was merged into UIR and the name was changed to United-Guardian, Inc., a New York Corporation. On September 14, 1987, United-Guardian, Inc. (New York) was merged with and into a newly-formed Delaware corporation by the same name, United-Guardian, Inc., for the purpose of changing the domicile of United.

The following is a description of the two business segments in which the Company operates:

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(1) Guardian conducts research, product development, manufacturing and marketing of cosmetic ingredients, personal and health care products, pharmaceuticals, and specialty industrial products. The research and development department not only develops new products but also modifies and refines existing products, with the goal of expanding the potential markets for the Company's products. Many of the products manufactured by Guardian, particularly its LUBRAJEL(R) line of products, are marketed worldwide through a network of distributors, and are currently used by many of the major multinational personal care products companies.

Guardian presently has a broad range of products, some of which are currently marketed, some of which are marketable but are not currently marketed by the Company, and some of which are still in the developmental stage. Of the products being actively marketed, the two largest product lines are the LUBRAJEL line of cosmetic ingredients, which accounted for approximately 70% of the Company's sales in 2006, and its RENACIDIN(R) IRRIGATION, a pharmaceutical product that accounted for approximately 17% of the Company's sales in 2006. The Company actively seeks other companies as potential marketers for its products, particularly for those products that are not yet being actively marketed by the Company.

(2) Eastern is a distributor of fine organic chemicals, research chemicals, intermediates, reagents, indicators, dyes and stains. It has been in business for over 50 years, the last 35 or so as a subsidiary of the Company. It carries an extensive line of products which it sells throughout the United States as well as overseas. Eastern's products are primarily sold either to distributors for resale in smaller quantities or as intermediates and raw materials for further chemical processing. Sales quantities range from a few hundred grams to over a thousand kilos per shipment. Although Eastern carries out no chemical manufacturing, it does contract with several custom chemical manufacturers and also will package-to-order for those customers that require it.

Paragon Organic Chemicals, Inc. ("Paragon") is a wholly-owned subsidiary of United that functions as a purchasing arm for Eastern. It has no assets or sales of its own.

(b) Narrative Description of Business

Guardian Laboratories Division

Guardian conducts research, product development, manufacturing and marketing of many different cosmetic ingredients, personal and health care products, pharmaceuticals, and specialty industrial products, all of which are developed by Guardian, and many of which have unique properties. The products manufactured by Guardian are sold to end users through the Company's marketing partners, distributors, direct advertising, mailings, and trade exhibitions. Guardian's proprietary cosmetic ingredients are sold through marketing partners and distributors and are incorporated into products marketed by many of the major international cosmetic companies. Many of Guardian's products are marketed through collaborative agreements with larger companies. The pharmaceutical products are sold to end users primarily through drug wholesalers. These sales include indirect sales to the Veteran's Administration and other government agencies. There is also a small amount of direct sales to hospitals and pharmacies.

During 2006, Guardian's sales accounted for approximately 92% of Company's total product sales.

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Guardian's products are sold under trademarks or trade names owned by the Company. The marks for the most important products, LUBRAJEL and RENACIDIN, are registered as trademarks in the United States Patent and Trademark Office. In 2006 sales from these two product lines accounted for approximately 94% of Guardian's sales, and 87% of the Company's sales.

PRINCIPAL PRODUCTS:

LUBRAJEL

LUBRAJEL is a line of nondrying water-based moisturizing and lubricating gels that have applications in the cosmetic industry primarily as a moisturizer and as a base for other cosmetic products, and in the medical field primarily as a lubricant. In the cosmetic industry it is used primarily as a stable gel for application around the eyes and on the face and as an ingredient in skin creams and moisturizers, makeup, body lotions, hair preparations, salves, and ointments. As a medical lubricant it has been used on catheters, prelubricated enema tips, and thermometers. The most important product in the LUBRAJEL line in 2006 once again was LUBRAJEL CG, the original form of LUBRAJEL; the second largest revenue producer in the Lubrajel line was LUBRAJEL MS.

LUBRAJEL RR and RC are special grades of LUBRAJEL that can withstand sterilization by gamma radiation, which is one of the methods of terminally sterilizing medical and hospital products. On April 11, 1995, the Company was granted a U.S. patent for this unique form of LUBRAJEL. In September 1994 the Company entered into a marketing agreement with Avail Medical (formerly Horizon Medical), a California company engaged in the development and manufacturing of products and services to the medical device and pharmaceutical industries. Avail has been actively marketing LUBRAJEL RC since January, 1996. LUBRAJEL RR, the original radiation resistant form of LUBRAJEL, is sold to medical device manufacturers primarily for use in lubricating urethral catheters.

LUBRAJEL PF is a preservative-free form of LUBRAJEL currently being marketed primarily by Societe D'Etudes Dermatologiques ("Sederma") under the tradename "Norgel". Sederma is the Company's distributor of LUBRAJEL in France and a major European cosmetic ingredient supplier. It is also distributed by some of the Company's other marketing partners under the name LUBRAJEL PF. Tests conducted by Sederma indicated that the product self-preserved, and aided in the preservation of other cosmetic ingredients with which it was formulated.

LUBRASIL(TM) and LUBRASIL DS are special types of LUBRAJEL in which silicone oil is incorporated into a LUBRAJEL base by microemulsification, while maintaining much of the clarity of regular LUBRAJEL. The products have a silky feel, and are water resistant while moisturizing the skin. (These sales are already included in the total Lubrajel sales figure mentioned previously). The newest products in the LUBRASIL line are the new LUBRASIL II products, which currently consist of LUBRASIL II DM and LUBRASIL II SB. Both products contain 20% silicone compared with 1% for the original LUBRASIL products.

The Company believes that its ability to increase sales of its LUBRAJEL products will depend on (a) the ability of its marketing partners, especially ISP Technologies Inc. ("ISP"), its largest marketing partner, to continue to bring the product to the attention of new customers, and (b) the Company's success in bringing to market new forms of LUBRAJEL that will enable the product to be used in new applications. Guardian is continuing to develop new varieties of LUBRAJEL for this purpose. In 2004 Guardian introduced a new LUBRAJEL under the name "LUBRAJEL II XD", and at the end of 2004 it introduced an extensive new

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line of LUBRAJEL products using a different preservative system, which the Company believes will attract new customers and retain existing customers that might require a different preservative system. In 2006 Guardian developed the two new LUBRASIL II products mentioned above, which have enhanced feel and additional lubricating and/or moisturizing properties. The LUBRASIL II DM was completed and was sampled to the Company's marketing partners in the third quarter of 2006, and the LUBRASIL II SB was completed in 2006 and is expected to be introduced into the market in the second quarter of 2007.

The Company believes that there is still significant potential to expand the sales of its LUBRAJEL line of products through both product modifications and by geographic expansion, especially in developing markets such as mainland China, India, and eastern Europe. In furtherance of that goal, in December, 2006 it entered into an agreement with a marketing consultant, who will be working with the Company to expand the Company's product line into areas not currently being serviced by the Company's existing distribution arrangements. That consultant will initially be concentrating on expanding the medical uses for the Guardian's products, which has been a growing area in recent years.

The Company believes that any potential sales increases in the LUBRAJEL line of products may be offset by sales of competitive products. Despite this competition, the Company believes that it will still be able to expand the market for its LUBRAJEL product line. The Company believes that LUBRAJEL'S reputation for quality and customer service, as well as future additions to the LUBRAJEL line, will enable it to continue to compete effectively in the marketplace.

PHARMACEUTICAL PRODUCTS

RENACIDIN is a urological prescription drug, approved in the U.S. only, which is used primarily to prevent the formation of and to dissolve calcifications in catheters implanted in the urinary bladder. It is marketed as a ready-to-use sterile solution under the name "RENACIDIN IRRIGATION". RENACIDIN IRRIGATION is also approved for use in dissolving certain types of kidney stones. In October, 1990, the United States Patent Office issued to the Company patent #4,962,208, which expires in October, 2007, covering the method of manufacturing RENACIDIN IRRIGATION. The Company does not expect the expiration of this patent to affect its sales of RENACIDIN IRRIGATION because the brand name, RENACIDIN, has a long history of use and has become synonymous with this product category.

CLORPACTIN(R) WCS-90 is a microbicidal product used primarily in urology and surgery as an antiseptic for treating a wide range of localized infections in the urinary bladder, the peritoneum, the abdominal cavity, the eye, ear, nose and throat, and sinuses. The product is a white powder that is mixed with water and used as a solution. It is a powerful disinfectant, fungicide, deodorizer, bleach, and detergent.

OTHER PRODUCTS:

KLENSOFT(TM) is a surfactant (a surface active agent, such as a soap or detergent, that can reduce the surface tension of a liquid and thus allow it to foam or penetrate solids or act as a wetting agent) that can be used in shampoos, shower gels, makeup removers, and other cosmetic formulations. The primary customer for KLENSOFT for many years has been in Taiwan, but over the past few years there have been new customers for the product in the United Kingdom, Australia, France and Korea.

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CONFETTI(TM)DERMAL DELIVERY FLAKES is a product line introduced in 2000 that incorporates various functional oil-soluble ingredients into colorful flakes that can be added to, and suspended in, various water-based products. The product color and ingredients can be customized to meet the needs of individual customers.

ORCHID COMPLEX(TM) is a successor product to Guardian's previous Oil of Orchids product and is a base for skin creams, lotions, cleansers, and other cosmetics. This product is an extract of fresh orchids, modified by extractants, stabilizers, and preservatives, and is characterized by its excellent lubricity, spreadability and light emolliency. Because of its alcohol solubility, it may also be used in fragrance products such as perfumes and toiletries. Its light emolliency lends use in shampoos, bath products and facial cleansers. It is also a superior emollient for sunscreens, vitamin creams, toners and skin serums. It is sold in two forms, water-soluble and oil-soluble.

UNITWIX(R) is a cosmetic additive used as a thickener for oils and oil-based liquids. It is a proprietary, unpatented product that does not require government approval to market.

LUBRASLIDE(TM) and a related product, B-122(TM), are powdered lubricants used in the manufacture of cosmetics such as pressed powders, eye liners, and rouges. They are used as binders for these products, increasing their drop strength and lowering the coefficient of friction and water-repellency.

RAZORIDE(TM) is a clear, hypo-allergenic, non-foaming, water-based shaving product that is surfactant- and soap-free and has excellent lubricity and moisturizing properties.

DESELEX(R) is a replacement for phosphates in detergents.

HYDRAJEL PL and HYDRAJEL VM are personal lubricants and moisturizers developed specifically for the feminine personal care market.

Of these "Other Products", Klensoft comprised under 5% of the Company's sales in FY-2006, and the rest of the products combined made up approximately 3% of the Company's sales in 2006.

Development Activities

Guardian's research and development department has developed a large number of products that can be used in many different industries, including the pharmaceutical, medical, cosmetic, health care, and specialty chemical industries. These products are in various stages of development, some being currently marketable and some being in the very early stages of development requiring a substantial amount of development work to bring them to market. Research is also being done on new uses for currently marketed products.

Prior to initiating research and development work on a product, market research is done to determine the marketability of the product, including the potential market size and most effective method of marketing the product. Ater that the research and development department will determine whether the product can be successfully developed, including (a) laboratory refinements and adjustments to suit the intended uses of the product; (b) stability studies to determine the effective shelf-life of the product and suitable storage and transportation conditions for the product; and (c) laboratory efficacy tests to determine the effectiveness of the product under different conditions.

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If that initial development work is successful, further development work to bring the product to market will continue, including some or all of the following: (a) clinical studies needed to determine safety and effectiveness of drug or medical device products; (b) preparatory work for the filing of Investigational New Drug Applications or New Drug Applications; (c) scaling up from laboratory production batches to pilot batches to full scale production batches.

While there can be no assurance that any particular project will result in a new marketable product or a commercially successful product, the Company believes that a number of its development projects, including those discussed below, may have commercial potential if the Company's development efforts are successful.

Guardian's major research focus is the development of new and unique personal care ingredients. The following are some of the projects that Guardian is either working on intends to work on in the near future:

LUBRAJEL II: This product line is being developed to recapture some of the market share that the Company has lost over the years to some of its competitors and to enhance the properties of the existing LUBRAJEL formulations. The first product in this line, LUBRAJEL II XD, was developed to be a drop-in replacement for an existing competitive product, and is currently being actively marketed. The second product, the LUBRASIL II DM, was initially sampled to the marketplace in August, 2006, and the third product, LUBRASIL II SB, is still in testing and should begin sampling in mid-2007. The Company hopes to continue to expand this product line over the next few years, introducing new formulations that have enhanced properties over competitive products. This new line is intended to be a supplement to, not replacement for, the current line of Lubrajel products. Its composition also will enable it to be used in certain countries, such as Japan, more easily than the current Lubrajel formulations.

CLORONINE: Cloronine is a powerful disinfectant, germicide, and sanitizer for disinfecting medical and surgical instruments and equipment (particularly where autoclaves are not available), and for the purification of water supplies. The product had been developed many years ago and had been approved for certain uses in France and Canada, and is still being sold on a very limited basis in Canada. The Company has been working with Howard Industries ("Howard"), an Ohio-based company that is interested in finding new markets for CLORONINE as a disinfecting agent. Howard has been testing it for a very specific farming application, and the results have been promising. They are currently awaiting the formal results of those tests and, if positive, Howard intends to begin marketing the product for that use in the second half of 2007. However, in order to do so it will have to register the product with one or more governmental agencies, including the United States Environmental Protection Agency, which could possibly delay their marketing efforts. Howard is also looking at other possible uses for Cloronine, and the Company is working on developing additional disinfecting agents, including one based on chlorine dioxide, which the Company hopes will open up new marketing opportunities with Howard.

CLORONINE GEL: This is another form of Cloronine that is being evaluated by Howard. It is a gel form of Cloronine, which makes it more effective on vertical surfaces. It, too, would require regulatory approvals before being marketed.

SELF-PRESERVING POLYMERIC THICKENER: This product will be a self-preserving raw material for cosmetic use that will enable cosmetic formulators to formulate preservative-free cosmetic products. Initial development efforts have produced mixed results so far, and this product is still in a very early stage of development.

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SKIN SENSORIAL AGENTS: A line of products that will enhance the feel of skin care products. The new Lubrasil II products mentioned are two examples of the new types of products the Company is looking to develop in this area.

MICROEMULSIFIED ANTIMICROBIAL: This would be a new form of antimicrobial product for use in skin disinfection products. The product could be sold either as a raw material or as a finished product in a hand cleanser.

The Company expects its research and development costs for 2007 to be comparable to those of the last two fiscal years. Any additional increase in development and/or production costs will depend on whether capital investments are required in order to continue development work on, or to manufacture, any of the new products under development.

Trademarks and Patents

The Company strongly believes in protecting its intellectual property and intends whenever possible to make efforts to obtain patents in connection with its product development program. The Company currently holds many United States patents and trademarks relating to its products, and regularly has patent and trademark applications pending with respect to a number of its research and development products. Patents formerly held by the Company on certain products have expired. There can be no assurance that any patents held by the Company will be valid or otherwise of value to the Company or that any patent applied for will be granted. However, the Company believes that its proprietary manufacturing techniques and procedures with respect to certain products offer it some protection from duplication by competitors regardless of the patent status of the products.

The various trademarks and trade names owned or used by the Company in its business are of varying importance to the Company. The most significant products for which the Company has a registered trademark are LUBRAJEL and RENACIDIN.

Set forth below is a table listing certain information with respect to all unexpired U.S. patents held by the Company:

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<CAPTION>

PATENT NAME	PATENT #	FILING DATE	ISSUE DATE	EXPIRATION DATE
<S>	<C>	<C>	<C>	<C>
Method of Preparing Time-Stable Solutions of Non-Pyrogenic Magnesium Gluconocitrate ("Renacidin Irrigation")	4,962,208	9/1985	10/1990	10/2007
Iodophor; Polyethylene Glycol Alkylaryl-sulfonate Iodine complex	4,873,354	4/1988	10/1989	4/2008
Iodophor; biocide; reacting polyethylene glycol, alkylarylsulfonate and Iodine water-propylene glycol solvent refluxing	5,013,859	4/1988	5/1991	5/2008
Thermal Resistant Microbial Agent ("Cloronine")	4,954,316	12/1988	9/1990	12/2008
Use of Clorpactin for the Treatment of Animal Mastitis & the applicator used in that treatment (owned jointly by the Company and Diversey Ltd.)	4,983,634	12/1988	1/1991	12/2008
Stable, Active Chlorine Containing Anti-microbial Compositions ("Cloronine")	5,128,342	10/1987	7/1992	7/2009

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<S>	<C>	<C>	<C>	<C>
Stabilized Beta Carotene	5,023,355	6/1990	6/1991	6/2010
Gamma Radiation Resistant Lubricating Gel	5,405,622	12/1993	4/1995	12/2013
Delivery system for oil soluble actives in cosmetic/ personal care products	6,117,419	9/1996	9/2000	12/2016
Microemulsion of silicone in a water-based gel that forms a clear, transparent, highly stable moisturizer and lubricant for cosmetic and medical use	6,348,199	1/1994	2/2002	2/2019

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The Company requires all employees and consultants who may receive proprietary information to agree in writing to keep such proprietary information confidential.

Eastern Chemical Corporation

Eastern is a wholly owned subsidiary of United. It distributes an extensive line of fine organic chemicals, research chemicals, test solutions, indicators, dyes and stains, and reagents. In 2006 and 2005 Eastern's sales accounted for approximately 8% and 9%, respectively, of the total product sales of the Company. The Company's business activities and marketing efforts over the past several years have focused increasingly on the Guardian division, which the Company believes has greater growth potential than Eastern. As a result, the Company has reduced the amount of inventory kept on hand by Eastern, which in turn has resulted in some decline in its sales. There also has been a general decrease in Eastern's business due to competition from new companies in this field. The Company has considered, and will continue to consider, the possibility of selling Eastern at such time as it determines that keeping the operation is no longer in the Company's best interests. The Company believes that if it were to sell Eastern, the loss of revenue from that subsidiary would not have a material impact on the Company's net income.

Marketing

Guardian markets its products through: (a) distributors; (b) advertising in medical and trade journals, by mailings to physicians and to the trade; and (c) exhibitions at appropriate medical meetings. The pharmaceutical products are sold in the United States primarily to drug wholesalers that distribute to drug stores for resale, and to hospitals, physicians, long-term care facilities, the Veteran's Administration, and other government agencies. The proprietary personal care and specialty chemical products are sold to distributors for resale and directly to manufacturers for use as ingredients or additives in the manufacture or compounding of their cosmetic, personal care, or industrial products.

Eastern's products are marketed through advertising in trade publications and direct mailings. They are sold to distributors and directly to users in a wide variety of applications. Eastern does not sell any unique products and is not dependent on any single customer or group of customers on a continuous basis.

Domestic Sales

In the United States, Guardian's cosmetic products are marketed exclusively by ISP in accordance with a marketing agreement entered into in 1996 and subsequently amended and expanded in 2000, 2002, and 2005 (see "Marketing Agreements" below). ISP also has certain rights to sell some of Guardian's other

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industrial and medical products. In 2006, ISP's purchases for distribution in the United States were estimated to be approximately $1,032,000 compared with $1,237,000 in 2005, a decrease of 16.6%. These sales accounted for approximately 8.5% of the Company's sales (NOTE: ISP's domestic sales figure is an estimate based on sales information provided to the Company by ISP. The Company has no way of independently determining which of ISP's purchases from the Company are intended for domestic sale and which are intended for foreign sale.) The Company believes that the decrease in ISP's domestic sales of the Company's products was the result of the discontinuation by some customers of products that contained the Company's raw materials. However, this decrease in ISP's domestic sales was offset by an increase in ISP's foreign sales of the Company's products.

The Company's domestic sales of pharmaceutical products are handled primarily through the major full-line drug wholesalers and account for approximately 19.0% of the Company's sales. The Company's other products, such as its industrial products, are sold directly to end-users and account for approximately 1.0% of sales.

Foreign Sales

In 2006 and 2005 the Company derived approximately 52.0% and 51.0%, respectively, of its sales from customers in foreign countries, primarily from sales of its cosmetic products in Europe and Asia. The Company currently has six distributors for its personal care products outside the United States, with ISP being the largest. ISP has global distribution rights with the exception of the following: S. Black Ltd. in the United Kingdom; Sederma in France; Luigi & Felice Castelli S.R.L. in Italy; S. Black Gmbh in Switzerland; and C&M International in Korea.

The Company's foreign sales attributable to each of its foreign distributors and/or customers as a percentage of the Company's total sales were as follows: ISP: 26.8% (an estimate of ISP's purchases intended for sale outside the U.S., based on sales figures provided to the Company by ISP); Sederma: 10.1%; S. Black: 6.0%; C&M International: 2.9%; Harmac: 1.4%; and Castelli: 1.0%. The Company also has two foreign customers for its medical products that each account for less than 1.0% of the Company's total sales.

Marketing Agreements

In 1994 the Company entered into a marketing agreement with ISP whereby ISP would distribute Guardian's personal care products, as well as some medical and industrial products, in certain parts of Europe, Asia, Australia, and Africa. ISP manufactures and markets an extensive line of personal care, pharmaceutical, and industrial products on a global basis. In 1996 the parties entered into another agreement, extending those distribution rights to the United States, Canada, Mexico, Central and South America. In July 2000 the parties entered into an Exclusive Marketing Agreement (the "2000 Agreement"), which modified, extended, and consolidated the 1994 and 1996 agreements. The 2000 Agreement also gave the Company greater flexibility in appointing other marketing partners in areas where ISP was not active or had not been successful, gave ISP certain additional territories, and granted ISP exclusivity in the territories assigned to it as long as annual minimum purchase requirements were met.

In December 2002 the parties entered into a letter agreement that extended and modified the 2000 Agreement. This was further modified in December 2005 to extend ISP's marketing rights until December 2008, and to provide for automatic extensions until December, 2010 if specified minimum annual purchase levels were attained. It also specified guidelines and provisions for future price increases by the Company.

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The Company believes that in the event ISP were to cease marketing Guardian's products, alternative arrangements could be made to continue to supply product to the customers currently using the Guardian's products without any significant interruption of supply.

The Company has other marketing arrangements with marketing partners in the U.K., France, Switzerland, Korea, and Italy, but all of these other arrangements are operating under either verbal agreements or expired written agreements, and are subject to termination at any time by either party.

Raw Materials

The principal raw materials used by the Company consist of common industrial organic chemicals, laboratory reagents, and common inorganic chemicals. Most of these materials are available in ample supply from numerous sources. The Company has five major raw material vendors that account for 91.0% of the raw material purchases for Guardian and 78.0% of the raw material purchases of the Company.

Inventories; Returns and Allowances

The Company's business requires that it maintain moderate inventories of certain of its finished goods. Historically, returns and allowances have not been a significant factor in the Company's business.

Backlog

The Company currently does not have any significant backlog.

Competition

Guardian has many products or processes that are either unique in their field or have some unique characteristics, and therefore are not in direct competition with the products or processes of other pharmaceutical, personal care, chemical, or health care companies. However, the pharmaceutical, health care, and cosmetic industries are all highly competitive, and the Company expects competition to intensify as advances in the field are made and become widely known. There may be many domestic and foreign companies that are engaged in the same or similar areas of research as those in which the Company is engaged, many of which have substantially greater financial, research, manpower, marketing and distribution resources than the Company. In addition, there are many large, integrated and established pharmaceutical, chemical and cosmetic companies that have greater capacity than the Company to develop and to commercialize types of products upon which the Company's research and development programs are based. However, the Company believes that the expense of testing and evaluating possible substitutes for the Company's products that are already in customers' formulations, as well as the expense to the customer in relabeling its products, is a significant barrier to displacing the Company's products in current customer formulations. These cost factors make it less likely that a customer would choose a competitive product unless there was a significant cost savings in doing so. The Company believes that manufacturing, regulatory, distribution and marketing expertise will be increasingly important competitive factors in favor of the Company. In this regard, the Company believes that its marketing arrangements with its global marketing partners will be important in the commercialization of many of the products which it is currently developing.

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Eastern faces competition from many other chemical manufacturers and distributors, many of which have much greater financial resources than Eastern. Eastern's competition is based primarily upon price, service and quality. Eastern attempts to maintain its competitive position in the industry through its ability to (i) locate and make wholesale arrangements to purchase the chemicals with suppliers located all over the world, (ii) maintain a sufficient inventory of its most popular items at all times, and (iii) customize each order as to quantity of the item requested and to tailor the price of the order to such quantity. Eastern's primary competitors are SA Fine Chemicals, Acros Organics, Pfaltz & Bauer, Inc., and Spectrum Chemical Mfg. Corp.

ISO-9001:2000 REGISTRATION

In December 2003 United earned ISO 9001:2000 registration from Underwriters Laboratories, Inc., indicating that United's documented procedures and overall operations had attained the high level of quality needed to comply with this new ISO certification level. United has been in continuous compliance with the new standard since that initial approval. Prior to that, in November 1998 United had earned ISO-9002 registration. United will continue to be evaluated every six months for continued compliance with the new ISO-9001:2000 standard. The Company has not included Eastern in its ISO registration process.

Government Regulation

Regulation by governmental authorities in the United States and other countries is a significant factor in the manufacturing and marketing of many of the Company's products. The Company and many of the Company's products are subject to certain government regulations. Products that may be developed and sold by the Company in the United States may require approval from federal regulatory agencies, such as the United States Food and Drug Administration ("F.D.A.") as well as state regulatory agencies. Products that may be developed and sold by the Company outside of the United States may require approval from foreign regulatory agencies. Any medical device products developed by the Company will be subject to F.D.A. regulation, and will usually require a 510(k) pre-market notification. Most pharmaceutical products will require clinical evaluation under an Investigational New Drug ("IND") application prior to submission of a New Drug Application ("NDA") for approval of a new drug product.

Guardian is required to comply with all pertinent Good Manufacturing Practices of the F.D.A. for medical devices and drugs. Accordingly, the regulations to which Guardian and certain of its products may be subject, and any changes with respect thereto, may materially affect Guardian's ability to produce and market new products developed by the Company.

The Company's present and future activities are, and will likely continue to be, subject to varying degrees of additional regulation under the Occupational Safety and Health Act, Environmental Protection Act, import, export and customs regulations, and other present and possible future foreign, federal, state and local regulations.

Portions of the Company's operating expenses are directly attributable to complying with federal, state, and local environmental statutes and regulations. In 2006 and 2005 the Company incurred approximately $47,000 and $49,000, respectively, in environmental compliance costs. There was no material financial or other impact on the Company as a result of compliance with environmental laws.

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Research and Development Expense

Portions of the Company's operating expenses are directly attributable to research and development the Company performs. In 2006 and 2005, the Company incurred approximately $502,000 and $423,000, respectively, in research and development expenses included in operating expenses. No portion of the research and development expenses was directly paid by the Company's customers.

Employees

The Company presently employs 43 people, 8 of whom serve in an executive capacity, 22 in research, quality control and manufacturing, 6 in maintenance and construction, and 7 in office and administrative work. Of the total number of employees, 41 are full time employees. None of the Company's employees are covered by a collective bargaining agreement. The Company believes that its relations with its employees are satisfactory.

Item 2. Description of Property.

The Company maintains its principal office, factory, and conducts most of its research at 230 Marcus Boulevard, Hauppauge, New York 11788. These premises, which the Company owns, contain approximately 30,000 square feet of manufacturing space, 15,000 square feet of warehouse space, and 5,000 square feet of office and laboratory space on approximately 2.7 acres of land. The Company has now fully developed the 2.7 acres, and fully utilizes the buildings occupying the land. The Company believes that the aforementioned property is adequate for its immediately foreseeable needs. The property is presently unencumbered and is adequately insured.

Item 3. Legal Proceedings

The Company is not aware of any pending or threatened litigation against the Company.

The Company may have a contingent liability arising out of a possible inadvertent violation of Section 5 of the Securities Act of 1933, as amended, in connection with its issuance of shares ("Plan Shares") under its 1993 Employee Incentive Stock Option Plan and Non-Statutory Stock Option Plan (collectively, the "Plans"). Since the initial filing of the Form S-8 in July 1993, the Company had been unaware that it might be necessary to obtain the consent of its auditors each year to update the Form S-8 with its filings under the Securities Exchange Act of 1934. Management believed that its initial registration on Form S-8 was updated annually by incorporating by reference all future filings under the 1934 Act, and therefore it did not know that it needed to request the annual consents. The Company has requested and obtained the consent of its auditors to incorporate their report included in this Form 10-KSB into the Form S-8, as Exhibit 23.1. The Company will also obtain and file such consents as exhibits to all future Forms 10-KSB until such time as it files a post-effective amendment to the Form S-8 indicating that all registered shares have been sold or deregistering unsold shares. The Company is in the process of determining whether or not the failure to obtain and file such auditors consents in previous Forms 10-KSB in fact created a defect in the Form S-8 which may trigger liability by the Company to purchasers of Plan Shares during relevant time periods under Federal and state securities laws. The Company believes that it is unlikely that any purchasers of stock under the Plans would want to rescind their purchases. It is also unclear whether any potential liability to the Company would extend to persons who purchased shares from participants in the Plans, and, in any event, the Company

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does not believe that any liability for damages resulting from the resale of such shares would be material to the accompanying financial statements. The Company is not aware of any threatened or pending claims against it based upon a Section 5 violation and it intends to defend any such claims should they arise.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

PART II

Item 5. Market for Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities

Market Information

The Common Stock of United is traded on the American Stock Exchange (the "AMEX") under the symbol "UG". The following table sets forth for the periods indicated the high and low closing sale prices of the shares of Common Stock, as reported by the AMEX Market Statistics for the period January 1, 2005 to December 31, 2006. The quotations represent prices between dealers and do not include retail markup, markdown or commission:

Quarters		Year Ended December 31, 2006		Year Ended December 31, 2005	
		High	Low	High	Low
First	(1/1 - 3/31)	10.86	8.71	8.40	7.39
Second	(4/1 - 6/30)	9.50	8.19	8.20	7.01
Third	(7/1 - 9/30)	9.50	7.55	8.49	7.61
Fourth	(10/1 - 12/31)	9.90	9.01	11.33	8.15

Holders of Record

As of March 1, 2007 there were 1108 holders of record of Common Stock.

Cash Dividends

On May 17, 2006 the Company declared a special cash dividend of $.25 per share, which was paid on June, 16, 2006 to all stockholders of record as of June 2, 2006. On December 18, 2006 the Company declared a cash dividend of $.22 per share, which was paid on January 10, 2007 to all stockholders of record as of December 27, 2006.

On May 19, 2005 the Company declared a special cash dividend of $.25 per share to all stockholders of record as of June 1, 2005, which was paid on June 15, 2005. On December 1, 2005 the Company declared a cash dividend of $.22 per share to all stockholders of record as of December 15, 2005, which was paid on January 5, 2006.

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Item 6. Management's Discussion and Analysis or Plan of Operation

Results Of Operations:
Year Ended December 31, 2006 Compared with
Year Ended December 31, 2005

Revenue

Consolidated revenue in 2006 increased by $60,676 (0.5%) compared with 2005. This was due to an increase of $132,207 (1.2%) in Guardian's sales, which was partially offset by a decrease in Eastern's sales of $71,531 (6.8%).

The increase in Guardian's sales was mainly due to an increase in sales of certain of the Lubrajel products that are used in medical-related products. Those sales increased 18.2% in 2006 compared with 2005. This was primarily due to an increase in volume from existing medical use customers, and relates to their sales of both existing and new products.

In the personal care market, Guardian's sales to ISP, its largest customer/distributor, decreased by 4.4% in 2006 compared with 2005. However, ISP reported to the Company that its sales of Guardian's products actually increased by 2.6% in the same period, despite the fact that their overall sales of personal care products were flat in 2006 compared with 2005. ISP believes that the disparity between what ISP purchased from the Company and what it actually sold was the result of their purchasing patterns and inventory levels.

Guardian's five other customers/distributors of personal care products showed both increases and decreases in 2006 compared with 2005. The net effect of this was that their combined sales increased by 5.0% in 2006 compared with 2005. The Company attributes most of this increase to purchasing patterns and stocking levels rather than to any significant increase in sales.

Overall, total sales of the Lubrajel line to all customers increased by 3.0% in 2006 compared with 2005, with the entire increase being attributable to the increase in medical-related uses of Lubrajel as discussed above.

The Company's sales of its two pharmaceutical products decreased by 0.1% in 2006 compared with 2005. Renacidin sales were down slightly and Clorpactin sales were up slightly. The Company attributes this to normal fluctuations in the buying patterns of its pharmaceutical customers.

Sales of the Company's industrial specialty products, which represent less than 1.0% of the Company's total sales, increased by $19,000 (15.6%) from $121,000 in 2005 to $140,000 in 2006. This was the result of normal fluctuations in the sales of these products.

Eastern's sales were down 6.8% in 2006 compared with 2005. This was a result of the continuing reduction in the amount of inventory that Eastern has on hand, which has resulted in an inability to fill some orders from existing stock as it might have been able to do in the past. This is part of a continuing effort on the part of the Company to put more of its resources into the growth of Guardian. The Company is monitoring closely the profitability of Eastern, and expects to either discontinue or sell this operation in the next few years, depending on whether or not it continues to be profitable.

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Cost of Sales

Cost of sales as a percentage of sales in 2006 decreased to 46.3% from 46.9% in the prior year. The decrease was primarily due to a decrease in the cost of the Company's primary raw material, which decrease was partially offset by an increase in the cost of manufacturing one of the Company's pharmaceutical products.

Operating Expenses

Operating expenses increased by $237,084 (9.1%) in 2006 compared with the prior year. This increase is mainly due to increases in payroll and payroll-related costs, such as pension costs, medical, disability, and other insurance premiums, as well as increases in legal and accounting costs, cost of utilities, and printing costs.

Other Income

Net other income increased $175,002 (73.7%) for the year ended December 31, 2006. This increase is mainly attributable to the net effect of an increase in income from investments of $77,585 in 2006 and the loss on the sale of a portfolio of marketable securities (primarily bonds) during 2005, the bulk of which had been managed for the company by Merrill Lynch. The sale of this portfolio resulted in a realized loss of approximately $116,000, of which approximately $107,000 had been previously recorded in the equity section of the balance sheet as an "accumulated other comprehensive loss". Approximately $108,000 of the loss was due to the sale of the bond portfolio managed by Merrill Lynch, which, over the 18 months the company held it, realized interest income net of broker fees of approximately $154,000. In 2006, the Company had realized losses on sales of marketable securities in the amount of $873 and a loss on the sale of fixed assets amounting to $14,695.

Provision for Income Taxes

The provision for income taxes decreased $71,852 (4.9%) in 2006 compared with 2005. This decrease was primarily due to the fact that in 2005 there was a capital loss of $116,000 from the sale of a bond portfolio managed by Merrill Lynch that was not deductible for tax purposes, thereby increasing the income tax provision for 2005. This did not recur in 2006. Even though earnings before taxes increased by $47,897 in 2006 compared to 2005, the non-recurrence of that non-deductible capital loss more than offset the increased earnings, resulting in a lower tax provision in 2006. That capital loss from 2005 is still available to offset any future realized capital gains, and can be carried forward for five years following the year of the loss.

Liquidity and Capital Resources

Working capital increased to $12,983,634 at December 31, 2006 from $12,281,645 at December 31, 2005, an increase of $701,989 (5.7%). The current ratio decreased to 7.6 to 1 at December 31, 2006 from 8.3 to 1 at December 31, 2005. The decrease in the current ratio from December 31, 2005 to December 31, 2006 was due primarily to: (a) an increase of approximately $131,000 in accrued expenses; (b) a decrease of approximately $275,000 in prepaid expenses; and (c) an increase of approximately $75,000 in accounts payable, all of which were partially offset by an increase in accounts receivable of approximately $338,000 and an increase in inventories of approximately $892,000.

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The increase in inventory was the result of the Company bringing in a large quantity of its Renacidin Irrigation product to fill orders while its application with the F.D.A. to change manufacturing facilities was pending. Since final approval is not expected until the end of 2007, the Company brought in additional inventory which it believes will be sufficient to last until it can bring in product from the new facility. This has resulted in an increase of approximately $1 million in the Company's finished goods inventory as compared with December 2005. The Company expects all of that inventory to be sold prior to its expiration date. (SEE "NOTE C" of the Company's "Notes To Consolidated Financial Statements" for additional details.)

At December 31, 2006 the Company did not have any line of credit agreements. On January 17, 2007 the Company entered into a line of credit agreement with JPMorgan Chase Bank for borrowings of up to $2,000,000 at an interest rate of 1.0% below the Prime Rate. The initial line of credit will expire on June 30, 2007, but it is expected that the line will be renewed by the Company on an annual basis thereafter. As of March 1, 2007 the Company had no outstanding balance on this credit line.

The Company generated cash from operations of $2,076,797 in 2006 compared to $3,172,030 in 2005. The decrease in 2006 was primarily due to the increases in accounts receivable and inventory.

Cash used in investing activities was $165,687 for the year ended December 31, 2006 compared with $1,381,475 for the year ended December 31, 2005. The change was mainly due to the net effect of the sale (primarily bonds) and purchases (primarily bond funds) of marketable securities and temporary investments in 2005.

Cash used in financing activities was $2,309,217 and $2,100,907 during the years ended December 31, 2006 and 2005, respectively. The increase was primarily due to the increase in the dividend declared in December 2005 that was paid in January 2006 to $.22 per share from the $.18 per share dividend that was declared in December 2004 and paid in January 2005. The Company believes that its working capital is sufficient to support its operating requirements for the next fiscal year. The Company's long-term liquidity position will be dependent upon its ability to generate sufficient cash flow from profitable operations. The Company has no material commitments for future capital expenditures.

Commitments

The Company currently has approximately $7,400 in lease commitments, which expire in 2008, of which approximately $5,300 is payable in 2007 with the remaining $2,100 payable in 2008.

The Company has an outstanding loan for the purchase of an automobile of which approximately $22,633 is outstanding, $7,988 is payable in each of 2007 and 2008, with the remaining $6,657 due in 2009.

Patent Expirations

The Company's patent on its Renacidin Irrigation expires in October 2007. The Company does not believe that the expiration of that patent will have a material impact on the Company's revenues.

Item 7. Financial Statements.

Annexed hereto starting on page F-1

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Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None

Item 8A. Controls and Procedures

An evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2006, was performed by the management of the Company, with the participation of the United's President and Chief Financial Officer. Based on that evaluation, United's President and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in ensuring that information required to be disclosed by the Company in the reports that it files under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified by the S.E.C.'s rules and forms. There have been no significant changes in the Company's internal controls over financial reporting during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Item 8B. Other Information

None

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance With Section 16(a) of the Exchange Act.

Directors and Executive Officers

Set forth in the table below is certain information as of March 1, 2007 with respect to the executive officers and Directors of the Registrant:

Name	Age	Position(s) with Registrant
Dr. Alfred R. Globus	86	Chairman of the Board of Directors; Director of Research
Kenneth H. Globus	55	President, General Counsel, and Director
Robert S. Rubinger	64	Executive Vice President, Chief Financial Officer, Secretary and Director
Charles W. Castanza	74	Senior Vice President
Derek Hampson	67	Vice President
Joseph J. Vernice	48	Vice President
Peter A. Hiltunen	48	Vice President
Cecile M. Brophy	58	Treasurer, Principal Accounting Officer, and Controller
Henry P. Globus	84	Director

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Lawrence F. Maietta	49	Director
Arthur M. Dresner	65	Director
Andrew A. Boccone	61	Director
Christopher W. Nolan, Sr.	42	Director

Dr. Alfred R. Globus has been Chairman of the Board of Directors and Director of Research of United since its inception in 1942. He had served as President from 1942 until 1988, and as Chief Executive Officer from 1942 until 2006.

Kenneth H. Globus has been President and General Counsel of United since July 1988. He also served as Chief Financial Officer from 1997 until 2006. He has been a Director since 1984.

Robert S. Rubinger has been Executive Vice President and Secretary of United since July 1988, Treasurer from May 1994 until May 2004, and Chief Financial Officer since December, 2006. He has been a Director since 1982.

Charles W. Castanza has been Senior Vice President of United since March 2000. He served as Operations Manager of Chemicals and Pharmaceuticals of United from February 1982 until April 1986. He had been a Director from 1982 until 2006.

Derek Hampson has been a Vice President of United since October 1987. He has served as Manager of Eastern since 1971 and its President since 1996.

Joseph J. Vernice has been a Vice President of United since February, 1995. He has been Manager of Research and Development since 1988 and Director of Technical Services since 1991.

Peter A. Hiltunen has been a Vice President of United since July 2002. He has been Production Manager since 1982.

Cecile M. Brophy has been Treasurer of United since May 2004. She has served as Controller since November 1997. From May 1994 until November 1997 she served as manager of the accounting departments of United and Eastern.

Henry P. Globus has been a consultant to the Company since July 1988. He served as Executive Vice President of United from February 1982 until July 1988. He has been a Director since 1947.

Lawrence F. Maietta has been a partner in the public accounting firm of Bonamassa, Maietta & Cartelli, LLP in Brooklyn, NY since October 1991. He was controller for United from October 1991 until November 1997, and a Director since February 1994.

Arthur M. Dresner has been a partner in the law firm Reed Smith, LLP since January 2003. From 1998 to 2003 he had been "Of Counsel" to that firm as well as to the law firm of McAulay, Nissen, Goldberg & Kiel LLP, which combined with Reed Smith in 2000. From 1974 until 1997 he was employed as a Vice President in corporate development and general management of ISP in Wayne, New Jersey. He has been a Director of United since April 1997.

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Andrew A. Boccone is an independent business consultant. From 1990 to his retirement in 2001 he was President of Kline & Company, a leading international business consulting and research firm that he first joined in 1974, developing growth strategies and providing business solutions for many multinational chemical companies. Prior to joining Kline & Company Mr. Boccone served in various management positions at American Cyanamid. He has been a Director of the United since November 2002.

Christopher W. Nolan, Sr. has been a Managing Director (since March 2006) and Executive Director (2002 to 2006) in the Mergers & Acquisitions ("M&A") group of Rabobank International, New York, NY. From 2000 to 2002 he was a Vice President in M&A for Deutsche Bank Securities, Inc., New York, NY. From 1992-2000 he was a V.P. in Corporate Development and Investor Relations for ISP in Wayne, NJ. He has been a Director of United since January 2005.

Kenneth H. Globus is the son of Henry P. Globus and the nephew of Alfred R. Globus. There are no other family relationships between any Directors or officers of the Company.

The Directors are elected to serve for one year or until the next Annual Meeting of Stockholders and until their successors have been elected and qualified.

Audit Committee Members and Financial Expert

The Board of Directors has an Audit Committee that meets with the Company's independent auditors to review the plan, scope and results of its audits. The Audit Committee consists of three of United's Directors, each of whom is considered an independent, outside Director. The Chairman of the Audit Committee is Arthur Dresner; the other two members are Andrew A. Boccone and Christopher W. Nolan, Sr.

The Company does not have a "financial expert" (as that term is defined by the S.E.C.) on its audit committee due to the expense involved in placing another independent Director on its Board of Directors and Audit Committee who would qualify as such. While all three Audit Committee members have experience in reading and analyzing financial statements, none has the experience necessary to qualify as a "financial expert" under the S.E.C. guidelines. One of United's other Directors, Lawrence F. Maietta, is a Certified Public Accountant with experience in preparing and analyzing financial statements and would qualify as a "financial expert" if it were not for the fact that he receives payment from the Company to assist in the preparation of its financial reports, and for that reason, even though he is considered "independent" by the American Stock Exchange, he is not considered "independent" by the S.E.C., and therefore cannot serve on the audit committee. Mr. Maietta now serves as an expert financial advisor to the Audit Committee in lieu of having a financial expert on the committee. Christopher Nolan is considered "financially sophisticated" as that term is defined by the American Stock Exchange.

Code of Ethics

The Company has adopted a Code of Business Conduct and Ethics that applies to all officers, Directors, and employees, serving in any capacity to the

Company, including the Chief Executive Officer and/or President, Chief Financial Officer, and principal accounting Officer. A copy of the Company's Code of Conduct and Ethics is available on the Company's web site at http://www.u-g.com/corporate. The Company intends to satisfy the disclosure

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requirement under Item 5.05 of form 8-K relating to amendments to or waivers from any provision of its Code of Business Conduct and Ethics applicable to Chief Executive Officer, Chief Financial Officer and principal accounting officer by posting this information on the Company's web site.

Compliance with Section 16(a) of the Exchange Act

The information required by this section is incorporated herein by reference to the section entitled "Directors and Executive Officers - Section 16(a) Beneficial Ownership Reporting Compliance" of Registrant's 2007 Proxy Statement.

Item 10. Executive Compensation.

The information required by this Item is incorporated herein by reference to the section entitled "Compensation of Directors and Executive Officers" of Registrant's 2007 Proxy Statement.

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this Item is incorporated herein by reference to the subsections entitled "Principal Stockholders" and "Security Ownership of Management" under the main section entitled "Voting Securities and Principal Stockholders", as well as to the subsection entitled "Summary Compensation Table" of the main section entitled "Compensation of Directors and Executive Officers", of Registrant's 2007 Proxy Statement.

Item 12. Certain Relationships and Related Transactions.

Information required to be set forth hereunder has been omitted and will be incorporated by reference, when filed, from Registrant's 2007 Proxy Statement.

Item 13. Exhibits

3(a) Certificate of Incorporation of United as filed April 22, 1987. Incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K, dated September 21, 1987 (the "1987 8-K").

3(b) Certificate of Merger of United-Guardian, Inc. (New York) with and into United-Guardian, Inc. (Delaware) as filed with the Secretary of State of the State of Delaware on September 10, 1987. Incorporated by reference to Exhibit 3(b) to the Registrant's Annual Report on Form 10-K for the fiscal year ended February 29, 1988 (the "1988 10-K").

3(c) By-laws of United. Incorporated by reference to Exhibit 4.2 to the 1987 8-K.

4(a) Specimen Certificate for shares of common stock of the United. Incorporated by reference to Exhibit 4(a) to the 1988 10-K.

10(a) Qualified Retirement Income Plan for Employees of the Company, as restated April 1, 1976. Incorporated by reference to Exhibit 11(c) of the Registrant's Registration Statement on Form S-1 (Registration No. 2-63114) declared effective February 9, 1979.

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10(b) Employment Termination Agreement dated July 8, 1988 between United and Henry Globus. Incorporated by reference to Exhibit 10(i) to the Registrant's Annual Report on Form 10-K for the 10-month transition period from March 1, 1991 to December 31, 1991.

10(c) Exclusive Distributor Agreement between United and ISP Technologies Inc., dated July 5, 2000. Incorporated by reference to Exhibit 10(d) to the Registrant's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2000.

10(d) Letter Amendment between United and ISP Technologies Inc. dated December 20, 2005 amending the Exclusive Distributor Agreement between United and ISP Technologies Inc. dated July 5, 2000. Incorporated by reference to Exhibit 10(d) to the Registrant's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2005.

21 Subsidiaries of United:

Name	Jurisdiction of Incorporation	Name Under Which it does Business
Eastern Chemical Corporation	New York	(same)
Dieselite Corporation *	Delaware	N/A
Paragon Organic Chemicals, Inc.	New York	(same)
Transcontinental Processes (Pty.) Ltd.**	Australia	N/A

* Inactive
** Inactive without assets

23.1 Consent by Eisner LLP to the incorporation by reference in the Registration Statement of the Company on Form S-8 of Eisner's report dated March 14, 2007 with respect to its audits of the consolidated financial statements of the Company for the years ended December 31, 2006 and 2005.

31.1 Certification of Kenneth H. Globus, President of United, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Robert S. Rubinger, Chief Financial Officer of United, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Kenneth H. Globus, President of United, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Robert S. Rubinger, Chief Financial Officer of United, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Item 14. Principal Accountant Fees and Services

Audit Fees

The aggregate fees that have been paid, or will be paid, to Eisner LLP by the Company for the review and audit of the Company's financial statements for

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FY-2006, including the Company's quarterly reports on Form 10-QSB and its annual report on form 10-KSB, were approximately $68,150 (including out of pocket expenses). The aggregate fees paid to Eisner LLP by the Company for the review and audit of the Company's quarterly and annual financial statements for FY-2005 were approximately $64,150 (including out of pocket expenses).

Audit-Related Fees

During FY-2006 there were no payments to Eisner LLP related to the Company's compliance with section 404 of the Sarbanes-Oxley Act ("SOX Compliance"). During FY-2005 Eisner LLP billed the Company $1,472 for fees related to its review of the Company's SOX Compliance. No other fees were billed by Eisner LLP for the last two fiscal years that were reasonably related to the performance of the audit or review of the Company's financial statements and not reported under "Audit Fees" above.

Tax Fees

There were no other fees billed by Eisner LLP during the last two fiscal years for professional services rendered for tax compliance, tax advice, and tax planning. Accordingly, none of such services were approved pursuant to pre-approval procedures or permitted waivers thereof.

All Other Fees

There were no other fees billed by Eisner LLP during the last two fiscal years for other products and services provided by Eisner LLP. All of the services described above were approved by the Audit Committee. Accordingly, none of such services were approved pursuant to pre-approval procedures or permitted waivers thereof.

Pre-Approval Policies and Procedures

Engagement of accounting services by the Company is not made pursuant to any pre-approval policies and procedures. Rather, the Company believes that its accounting firm is independent because all of its engagements by the Company are approved by the Company's audit committee prior to any such engagement.

The Audit Committee of United's Board of Directors meets periodically to review and approve the scope of the services to be provided to the Company by its Independent Registered Public Accounting Firm, as well to review and discuss any issues that may arise during an engagement. The Audit Committee is responsible for the prior approval of every engagement of the Company's Independent Registered Public Accounting Firm to perform audit and permissible non-audit services for the Company (such as quarterly reviews, tax matters, consultation on new accounting and disclosure standards, and, in future years, reporting on management's internal controls assessment).

Before the auditors are engaged to provide those services, the chief financial officer and controller will make a recommendation to the Audit Committee regarding each of the services to be performed, including the fees to be charged for such services. At the request of the Audit Committee the Independent Registered Public Accounting Firm and/or management shall periodically report to the Audit Committee regarding the extent of services being provided by the Independent Registered Public Accounting Firm, and the fees for the services performed to date.

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SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNITED-GUARDIAN, INC.

Dated: March 19, 2007

By: /s/ Kenneth H. Globus
Kenneth H. Globus
President & Director

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
By:/s/ Alfred R. Globus Alfred R. Globus	Chairman of the Board of Directors	March 19, 2007
By:/s/ Kenneth H. Globus Kenneth H. Globus	President, General Counsel, Director,	March 19, 2007
By:/s/ Robert S. Rubinger Robert S. Rubinger	Executive Vice President, Secretary, Chief Financial Officer; Director	March 19, 2007
By:/s/ Charles W. Castanza Charles W. Castanza	Senior Vice President	March 19, 2007
By:/s/ Cecile M. Brophy Cecile M. Brophy	Treasurer, Principal Accounting Officer, and Controller	March 19, 2007
By:/s/ Henry P. Globus Henry P. Globus	Director	March 19, 2007
By:/s/ Lawrence F. Maietta Lawrence F. Maietta	Director	March 19, 2007
By:/s/ Arthur M. Dresner Arthur M. Dresner	Director	March 19, 2007
By: /s/ Andrew A. Boccone Andrew A. Boccone	Director	March 19, 2007
By: /s/ Christopher W. Nolan, Sr. Christopher W. Nolan, Sr.	Director	March 19, 2007

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
United-Guardian, Inc.

We have audited the accompanying consolidated balance sheets of United-Guardian, Inc. and subsidiaries as of December 31, 2006 and 2005 and the related consolidated statements of income, changes in stockholders' equity, comprehensive income, and consolidated cash flows for each of the years in the two year period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note A to the consolidated financial statements, effective January 1, 2006, the Company changed its method of accounting for stock-based compensation in accordance with Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment".

As discussed in Note A to the consolidated financial statements, effective December 31, 2006, the Company changed its method of accounting for its pension liability in accordance with Statement of Financial Accounting Standards No.158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans".

In our opinion, the financial statements enumerated above present fairly, in all material respects, the consolidated financial position of United-Guardian, Inc. and subsidiaries as of December 31, 2006 and 2005 and the consolidated results of their operations and their consolidated cash flows for each of the years in the two-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

/s/ EISNER LLP

New York, New York
March 14, 2007

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UNITED-GUARDIAN, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31, 2006	December 31, 2005
CURRENT ASSETS		
Cash and cash equivalents	$3,027,486	$3,425,593
Temporary investments	527,825	699,363
Marketable securities	7,346,653	7,066,797
Accounts receivable, net of allowance for doubtful accounts of $47,000 and $47,500, respectively	1,421,788	1,083,992
Inventories	1,923,068	1,031,563
Prepaid expenses and other current assets	165,288	440,380
Deferred income taxes	534,761	217,389
Total current assets	14,946,869	13,965,077
PROPERTY, PLANT AND EQUIPMENT		
Land	69,000	69,000
Factory equipment and fixtures	3,119,797	3,068,050
Building and improvements	2,161,418	2,133,422
Waste disposal plant	133,532	133,532
	5,483,747	5,404,004
Less accumulated depreciation	4,634,954	4,455,524
	848,793	948,480
OTHER ASSET		
Other	148,430	108,680
	148,430	108,680
	$15,944,092	$15,022,237

See notes to consolidated financial statements

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UNITED-GUARDIAN, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2006	December 31, 2005
CURRENT LIABILITIES		
Dividends payable	$1,087,271	$1,086,391
Accounts payable	222,625	148,051
Current loans payable	7,988	-
Accrued taxes payable	65,438	-
Accrued expenses	579,913	448,990
Total current liabilities	1,963,235	1,683,432
Loans payable	14,645	-
Accrued pension liability	706,162	-
Deferred income taxes	34,360	59,817
	755,167	59,817
COMMITMENTS AND CONTINGENCIES (Note I)		
STOCKHOLDERS' EQUITY		
Common stock, $.10 par value; 10,000,000 shares authorized; 5,004,339 and 5,000,339 shares issued, respectively; and 4,942,139 and 4,938,139 outstanding, respectively	500,434	500,034
Capital in excess of par value	3,792,478	3,778,838
Accumulated other comprehensive loss	(566,130)	(84,365)
Retained earnings	9,858,538	9,444,111
Treasury stock, at cost; 62,200 shares	(359,630)	(359,630)
	13,225,690	13,278,988
	$15,944,092	$15,022,237

See notes to consolidated financial statements

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UNITED-GUARDIAN, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Year ended December 31,	
	2006	2005
Revenue		
Net sales	$12,195,672	$12,134,996
Costs and expenses		
Cost of sales	5,641,663	5,690,966
Operating expenses	2,829,299	2,592,215
	8,470,962	8,283,181
Income from operations	3,724,710	3,851,815
Other income (expense)		
Investment income	429,088	351,503
Loss on sale of marketable securities	(873)	(113,865)
Loss sale of assets	(14,695)	-
Interest Expense	(798)	-
Other expense	(261)	(179)
Income before income taxes	4,137,171	4,089,274
Provision for income taxes	1,399,939	1,471,791
Net Income	$ 2,737,232	$ 2,617,483
Earnings per common share (basic and diluted)	$ .55	$ .53
Weighted average shares-basic	4,941,657	4,935,472
Weighted average shares-diluted	4,944,721	4,941,858

See notes to consolidated financial statements

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UNITED-GUARDIAN, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
AND COMPREHENSIVE INCOME

Years ended December 31, 2006 and 2005

	Common stock		Capital in excess of	Accumulated other comprehensive	Retained	Treasury		Comprehensive
	Shares	Amount	par value	income (loss)	earnings	stock	Total	income
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, December 31, 2004	4,994,739	$ 499,474	$3,756,943	$ (86,730)	$ 9,146,154	$(359,630)	$12,956,211	
Issuance of common stock in connection with exercise of stock options	5,600	560	19,345				19,905	
Tax Benefit from exercise of stock options			2,550				2,550	
Unrealized loss on marketable securities, net of deferred income tax of $1,400.....				2,365			2,365	$ 2,365
Net income					2,617,483		2,617,483	2,617,483
Dividends declared					(2,319,526)		(2,319,526)	_____
Comprehensive income								$2,619,848
	---	---	---	---	---	---	---	=========
Balance, December 31, 2005	5,000,339	500,034	3,778,838	(84,365)	9,444,111	(359,630)	13,278,988	
Issuance of common stock in connection with exercise of stock options	4,000	400	13,640				14,040	
Adjustment to initially apply SFAS 158, net of deferred income tax benefit of $297,800				(500,481)			(500,481)	$(500,481)
Unrealized loss on marketable securities, net of deferred income tax of $11,200.....				18,716			18,716	18,716
Net income					2,737,232		2,737,232	2,737,232
Dividends declared					(2,322,805)		(2,322,805)	_____
Comprehensive income								$2,255,467
	---	---	---	---	---	---	---	=========
Balance, December 31, 2006	5,004,339	$ 500,434	$ 3,792,478	$(566,130)	$ 9,858,538	$(359,630)	$13,225,690	
	=========	=========	==========	==========	==========	==========	==========	

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See notes to consolidated financial statements

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UNITED-GUARDIAN, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,	
	2006	2005
Cash flows from operating activities		
Net income	$2,737,232	$2,617,483
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	195,369	205,811
Realized loss on sale of marketable securities	873	116,512
Net loss on sale of equipment	14,695	-
Provision for bad debts	(500)	23,254
Tax Benefit from exercise of stock options	-	2,550
Deferred income taxes	(56,229)	54,645
Provision for inventory obsolescence	1,000	20,000
Increase (decrease) in cash resulting from changes in operating assets and liabilities		
Accounts receivable	(337,296)	(189,161)
Inventories	(892,505)	324,317
Prepaid expenses and other current and non current assets	235,342	(32,935)
Accounts payable	74,574	(24,269)
Accrued pension costs	(92,119)	-
Accrued expenses and taxes payable	196,361	53,823
Net cash provided by operating activities	2,076,797	3,172,030
Cash flows from investing activities		
Acquisition of plant and equipment	(94,412)	(156,620)
Proceeds from the sale of plant and equipment	8,000	-
Net change in temporary investments	171,538	(297,075)
Purchase of marketable securities	(2,899,491)	(5,293,131)
Proceeds from sale of marketable securities	2,648,678	4,365,351
Net cash used in investing activities	(165,687)	(1,381,475)
Cash flows from financing activities		
Payment of long term debt	(1,332)	-
Proceeds from exercise of stock options	14,040	19,905
Dividends paid	(2,321,925)	(2,120,812)
Net cash used in financing activities	(2,309,217)	(2,100,907)
Net decrease in cash and cash equivalents	(398,107)	(310,352)
Cash and cash equivalents, beginning of year	3,425,593	3,735,945
Cash and cash equivalents, end of year	$3,027,486	$3,425,593

See notes to consolidated financial statements

UNITED-GUARDIAN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

NOTE A - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

United-Guardian, Inc. (the "Company") is a Delaware corporation that operates in two business segments: (1) the Guardian Laboratories Division conducts research, product development, manufacturing and marketing of pharmaceuticals, cosmetic ingredients, health care products, and proprietary specialty industrial products, and (2) the Eastern Chemical Corporation subsidiary, which distributes a line of fine organic chemicals, research chemicals, test solutions, indicators, intermediates, dyes and reagents. Two major product lines, Lubrajel and Renacidin, included in the Guardian Laboratories Division, accounted for approximately 87% and 85% of consolidated sales for each of the years ended December 31, 2006 and 2005, with Lubrajel accounting for 70% and 68% and Renacidin accounting for 17% of consolidated sales for each of those years.

Principles of Consolidation

The consolidated financial statements of the Company include the accounts of United-Guardian, Inc. and its wholly-owned subsidiaries, Eastern Chemical Corporation and Paragon Organic Chemicals, Inc. (a purchasing agent for Eastern). All inter-company accounts and transactions have been eliminated.

Revenue Recognition

The Company recognizes revenue as products are shipped, collections are reasonably assured, and title passes to customers. An allowance for returns is taken as a reduction of sales within the same period the revenue is recognized. Such allowances are based on historical experience. The Company has not experienced significant fluctuations between estimated allowances and actual activity.

Cash and Cash Equivalents

For financial statement purposes the Company considers as cash equivalents all highly liquid investments with an original maturity of three months or less at inception.

Dividends

On May 17, 2006 the company declared a special dividend of $.25 per share payable on June 16, 2006 to stockholders of record as of June 2, 2006 for a total payout of $1,235,535, and on December 18, 2006 the company declared a cash dividend of $.22 per share payable on January 10, 2007 to stockholders of record as of December 27, 2006, for a total payout of $1,087,270.

On May 19, 2005 the Company declared a special dividend of $.25 per share payable on June 15,2005 to stockholders of record as of June 1, 2005, for a total payout of $1,233,135, and on December 1, 2005 the Company declared a cash dividend of $.22 per share payable on January 6, 2006 to stockholders of record as of December 15, 2005, for a total payout of $1,086,391.

NOTE A (continued)

Statements of Cash Flows

Cash payments for income taxes were $1,223,762 and $1,321,853 for the years ended December 31, 2006 and 2005, respectively. Cash payments for interest was $798 for the year ended December 31, 2006 and there were no payments for interest during the year ended December 31, 2005.

For the year ended December 31, 2006, the Company had the following non-cash investing and financing activities:

Obligations under long-term debt for equipment purchases	$ 23,965
Pension liability, comprehensive loss and related tax effect....	$798,000

Marketable Securities and Temporary Investments

Marketable securities include investments in equity mutual funds, government securities and corporate bonds which are classified as "Available for Sale" securities and are reported at their fair values. Unrealized gains and losses on "Available for Sale" securities are reported as accumulated other comprehensive income (loss) in stockholders' equity, net of the related tax effects. Investment income is recognized when earned. Realized gains and losses on sales of investments are determined on a specific identification basis. Fair values are based on quoted market prices.

Temporary investments consist of certificates of deposit and treasury bills that mature in one year or less.

Inventories

Inventories are valued at the lower of cost or current market value. Cost is determined using the average cost method (which approximates FIFO). Inventory costs include material, labor and factory overhead.

Property, Plant and Equipment

Property, plant and equipment are carried at cost, less accumulated depreciation. Major replacements and betterments are capitalized while routine maintenance and repairs are expensed as incurred. Assets are depreciated under both accelerated and straight-line methods. Depreciation charged to income as a result of using accelerated methods was not materially different than that which would result from using the straight-line method for all periods presented. Certain factory equipment and fixtures are constructed by the Company using purchased materials and in-house labor. Such assets are capitalized and depreciated on a basis consistent with the Company's purchased fixed assets.

Estimated useful lives are as follows:

Factory equipment and fixtures	5 - 7 years
Building	40 years
Building improvements	Lesser of useful life or 20 years
Waste disposal system	7 years

NOTE A (continued)

Long-Lived Assets

It is the Company's policy to evaluate and recognize an impairment to its long-lived assets if it is probable that the recorded amounts are in excess of anticipated undiscounted future cash flows.

Other Asset

Other asset consists of a $148,430 deposit given to a vendor for regulatory and validation work being done in order to qualify one of the vendor's other manufacturing locations for the production of the Company's Renacidin Irrigation product. This was necessitated by the vendor's relocation of production of this type of product to another of its facilities.

Fair Value of Financial Instruments

The Company has estimated the fair value of financial instruments using available market information and other valuation methodologies in accordance with Statement of Financial Accounting Standards ("SFAS") No. 107, "Disclosures About Fair Value of Financial Instruments." Management of the Company believes that the fair value of financial instruments, consisting of cash, temporary investments, marketable securities, accounts receivable, accounts payable, dividends payable and accrued expenses approximates their carrying value due to their short payment terms.

Concentration of Credit Risk

Accounts receivable potentially expose the Company to concentrations of credit risk. The Company routinely addresses the financial strength of its customers and, as a consequence, believes that its accounts receivable credit risk exposure is limited. For each of the years ended December 31, 2006 and 2005, two customers, both of them distributors and marketing partners of the Company, accounted for revenues aggregating 45% and 48% respectively. At December 31, 2006 and December 31, 2005 those same two customers had accounts receivable balances aggregating 52% and 32% respectively.

Income Taxes

Deferred tax assets and liabilities reflect the future tax consequences of the differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Research and Development

The Company's research and development expenses, included in operating expenses, are recorded in the year incurred. Research and development expenses were approximately $502,000 and $423,000 for the years ended December 31, 2006 and 2005, respectively.

NOTE A (continued)

Shipping and Handling Costs

Shipping and handling costs are classified in operating expenses in the accompanying consolidated statements of income. Shipping and handling costs were approximately $102,000 and $106,000 for the years ended December 31, 2006 and 2005 respectively.

Advertising Costs

Advertising costs are expensed as incurred. During 2006 and 2005 the Company incurred $64,500 and $76,765 of advertising costs, respectively.

Stock-Based Compensation

In 2004 the Company approved a new stock option plan ("2004 Stock Option Plan"). Effective January 1, 2006, we adopted Statement of Financial Accounting Standards ("SFAS") No. 123R, "Share Based Payment". We elected to use the modified prospective transition method, therefore, prior period results were not restated. Prior to the adoption of SFAS 123R, stock-based compensation expense related to employee and Director stock options was not recognized in the results of operations if the exercise price was at least equal to the market value of the common stock on the grant date, in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Stock-based compensation Issued to Employees".

SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized as compensation expense over the requisite service period (generally the vesting period) in the financial statements based on their fair values on grant date. For options with graded vesting, the Company fair values the stock option grants and recognizes compensation expense as if each vesting portion of the award was a separate award. Under the modified prospective method, awards that were granted, modified, or settled on or after January 1, 2006 are measured and accounted for in accordance with SFAS 123R. The impact of forfeitures that may occur prior to vesting is also estimated and considered in the amount of expense recognized. In addition, the realization of tax benefits in excess of amounts recognized for financial reporting purposes will be recognized as a financing activity rather than as an operating activity.

The following table illustrates the effect on net income and earnings per share if the company had applied the fair value recognition provisions of SFAS No.123 to stock-based employee compensation.

NOTE A (continued)

	Year Ended December 31, 2005
Reported net income	$ 2,617,483
Stock-based employee compensation expense included in reported net income, net of related tax effect	0
Stock-based employee compensation determined under the fair value based method, net of related tax effect	0
Pro forma net income	$ 2,617,483
Earnings per share (basic and diluted)	
As reported	.53
Pro forma	$ .53

No stock options were granted in 2006 or 2005 under the 2004 Stock Option Plan.

Earnings Per Share Information

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the year. Diluted earnings per share includes the dilutive effect of outstanding stock options.

Use of Estimates

In preparing financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates. Such estimated items include the allowance for bad debts, reserve for inventory obsolescence, pension liability and the allocation of overhead.

Segment Reporting

SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information," requires that the Company disclose certain information about its business segments defined as "components of an enterprise about which separate

NOTE A (continued)

financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance."

New Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board ("FASB") issued interpretation No. 48, "Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109" ("FIN 48"), regarding accounting for, and disclosure of, uncertain tax positions. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact FIN 48 will have on its consolidated financial position, results of operations, and cash flows.

In September 2006, the S.E.C. issued Staff Accounting Bulletin 108, "Considering the Effects on Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements," ("SAB 108"). SAB 108 requires registrants to quantify errors using both the income statement method (i.e. iron curtain method) and the rollover method and requires adjustment if either method indicates a material error. If a correction in the current year relating to prior year errors is material to the current year, then the prior year financial information needs to be corrected. A correction to the prior year results that are not material to those years, would not require a "restatement process" where prior financials would be amended. SAB 108 is effective for fiscal years ending after November 15, 2006. The adoption of SAB 108 did not have a material effect on our consolidated financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," to define fair value, establish a framework for measuring fair value in accordance with generally accepted accounting principles, and expand disclosures about fair value measurements. SFAS No. 157 will be effective for fiscal years beginning after November 15, 2007, which for the Company will be the 2008 calendar (and fiscal) year. The Company is assessing the impact the adoption of SFAS No. 157 will have on the Company's consolidated financial position, results of operations, and cash flows.

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans."

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NOTE A (continued)

SFAS No. 158 improves reporting of obligations for pensions by recognizing the over-funded or under-funded status of plan as an asset or liability, which is effective for the fiscal year ended December 31, 2006. The pronouncement does not change how the plan assets and obligations are measured under SFAS 87 and SFAS 106 nor does it change the approach for measuring the annual benefit cost reported in earnings. Rather, it eliminates the provisions that permit assets and obligations to be measured as of a date not more than three months prior to the balance sheet date, instead requiring measurement as of the reporting date, which is effective for fiscal year ending December 31, 2008 for the Company. In addition the pronouncement requires previously unrecognized items, such as actuarial gains and unrecognized prior services costs or credits to be recognized in the balance sheet as a component of other comprehensive income (loss).

The following table reflects the incremental effect of applying FASB Statement No. 158 on individual line items in the consolidated Balance Sheets at December 31, 2006.

	Before Application of Statement 158	Adjustments	After Application of Statement 158
(Asset)/Liability for pension benefit	$ (92,120)	$ 798,281	$ 706,162
Deferred income taxes	(236,961)	(297,800)	(534,761)
Total liabilities	2,012,240	706,162	2,718,402
Accumulated other comprehensive income	(65,649)	(500,481)	(566,130)
Total Stockholders' Equity	13,726,171	(500,481)	13,225,690

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 provides an option to report selected financial assets and financial liabilities using fair value. The standard establishes required presentation and disclosures to facilitate comparisons with companies that use different measurements for similar assets and liabilities. SFAS 159 is effective for fiscal years beginning after November 15, 2007, with early adoption allowed only if SFAS 157 is also adopted. The Company is currently evaluating the impact of adopting SFAS 159 on its consolidated financial statements.

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NOTE B - MARKETABLE SECURITIES

Marketable securities at December 31, 2006 and 2005 were as follows:

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	Cost	Fair Value	Unrealized Gain/(Loss)
<S>	<C>	<C>	<C>
December 31, 2006			
Available for sale:			
U.S. Treasury and agencies	$3,001,026	$3,003,399	$ 2,373
Fixed income mutual funds	4,220,084	4,091,754	(128,330)
Equity and other mutual funds	230,192	251,500	21,308
	$7,451,302	$7,346,653	$(104,649)
December 31, 2005			
Available for sale:			
U.S. Treasury and agencies	$2,046,900	$2,028,984	$ (17,916)
Corporate debt securities	900,595	892,110	(8,485)
Fixed income mutual funds	4,028,072	3,928,513	(99,559)
Equity and other mutual funds	225,793	217,190	(8,603)
	$7,201,360	$7,066,797	$(134,563)

</table>

NOTE C - INVENTORIES

Inventories consist of the following:

	December 31, 2006	December 31, 2005
Raw materials and work-in-process	$ 313,319	$ 376,308
Finished products and fine chemicals ...	1,609,749	655,255
	$1,923,068	$1,031,563

One of the Company's pharmaceutical products, Renacidin Irrigation, had been manufactured for the Company by Hospira, Inc., formerly a division of Abbott Laboratories, in Rocky Mount, North Carolina. Hospira is changing the manufacturing facility for Renacidin Irrigation from the Rocky Mount facility to its facility in Clayton, North Carolina, and as a result it was necessary for the Company obtain F.D.A. approval to have the product manufactured in the new facility. The Company filed its application with the F.D.A. in December 2006, and is awaiting a response.

At December 31, 2006 and 2005, the company has reserved $109,000 and $108,000 respectively for slow moving and obsolete inventory.

NOTE D - NOTES PAYABLE - BANKS

There were no notes payable at December 31, 2006 and 2005.

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NOTE E - INCOME TAXES

The provision for income taxes consists of the following:

	Year ended December 31,	
	2006	2005
Current		
Federal	$1,271,863	$1,219,309
State	184,305	197,837
	1,456,168	1,417,146
Deferred		
Federal	(48,693)	47,321
State	(7,536)	7,324
	(56,229)	54,645
Total provision for income taxes	$1,399,939	$1,471,791

The following is a reconciliation of the Company's effective income tax rate to the Federal statutory rate:

	Year ended December 31,			
	2006		2005	
	(000's)	%	(000's)	%
Income taxes at statutory Federal income tax rate	$1,407	34%	$1,390	34%
State income taxes, net of Federal benefit	122	3	126	3
Foreign Sales Exclusion	(75)	(2)	(81)	(2)
Domestic Production Exclusion	(36)	(1)	(41)	(1)
Nondeductible expenses	4	-	3	-
Change in deferred tax asset valuation allowance	0	0	39	1
Other, net	(22)	0	36	1
Actual income tax expense	$1,400	34%	$1,472	36%

NOTE E (continued)

During 2006 and 2005, the Company realized the tax benefits of the Foreign Sales exclusion and the Domestic Production Activities Deduction. The American Jobs Creation Act repealed the Extraterritorial Income Exclusion for transactions after 2004 subject to transitional rules. As such, the company is entitled to claim 60% and 80% of the pre-repeal exclusion for transactions during 2006 and 2005 respectively.

The Domestic Production Activities Deduction was created to replace the Extraterritorial Income Exclusion. In 2006 and 2005, this deduction amounted to 3% of net income from domestic production activities.

The tax effects of temporary differences which comprise the deferred tax assets and liabilities are as follows:

	December 31	
	2006	2005
Deferred tax assets		
Current		
Accounts receivable	$ 17,531	$ 17,718
Unrealized loss on marketable securities	39,000	50,200
Accrued pension liability	297,800	-
Inventories	40,657	40,284
Accrued Expenses	119,225	101,987
Sec. 263A costs	13,348	-
Capital Loss	42,798	42,472
Other	7,200	7,200
	577,559	259,861
Valuation Allowance	(42,798)	(42,472)
	534,761	217,389
Deferred tax liabilities		
Non-current		
Deferred taxes	(34,360)	(59,817)
	(34,360)	(59,817)
Net deferred tax asset	$ 500,401	$ 157,572

The valuation allowances at December 31, 2006 and 2005 are due to the capital loss carry forwards that the company does not expect to utilize in the future. The change in the valuation for the year ended December 31, 2006 was $326.

NOTE F - BENEFIT PLANS

Pension Plan

The Company has a noncontributory defined benefit pension plan which covers substantially all of its employees. Benefits are based on years of service and employees' compensation prior to retirement. Amounts are funded in accordance with the requirements of ERISA (Employee Retirement Income Security Act of 1974) and the plan is administered by a trustee who is responsible for payments to retirees. The plan assets primarily consist of cash equivalents, bonds, commercial paper and mortgage-backed securities, and are recorded at fair value within the plan.

The fair value of plan assets as of October 1, 2006 and 2005 was $2,208,527 and $2,314,362, respectively.

The projected benefit obligation to plan assets are $2,914,689 and $3,054,346 at October 1, 2006 and 2005 respectively.

The net pension liability recorded by the Company at December 31, 2006 is $706,162, while the net pension asset recorded by the Company at December 31, 2005 was $160,368.

The percentage of the fair value of total plan assets as of October 1, 2006 is as follows:

	2006	2005
Equity securities	24%	29%
Debt securities - General Investment Account	76%	71%
Total	100%	100%

Investment strategies are determined by the Board of Directors in which all new monies are invested in debt securities operated by the Principal Financial Group comprised of private placed loans including residential and commercial mortgages and private placement bonds.

Historical returns of multiple asset classes were analyzed to develop a risk free real rate of return and risk premiums for each asset class. The overall rates for each asset class was developed by combining a long-term inflation component, the risk free real rate of return, and the associated risk premium. A weighted average rate was developed based on those overall rates and target asset allocation of the plan.

In March 1998, the Board of Directors authorized a one time investment of some of the assets of the plan into two equity funds operated by the Principal Financial Group. In addition, in 2001, when the Principal Financial Group became a publicly traded company, a distribution of their stock was made to all investors. This investment has resulted in a third equity investment. No additional contributions have been made to any of the three equity investments. Any future investments will continue to be determined by the Board of Directors.

Note F (continued)

The accumulated benefit obligation is $2,307,022 and $2,476,741 at December 31, 2006 and 2005 respectively.

Based on current data and assumptions, the following benefit payments, which reflect expected future employee service, as appropriate, are expected to be paid over the next ten years as follows:

Year Ending	Expected Future Benefits Payable
2007	$ 650,000
2008	100,000
2009	35,000
2010	180,000
2011	140,000
2012-2016	1,890,000

The company estimates that it will make contributions to the pension plan of approximately $200,000 during 2007 which includes required and discretionary contributions.

A measurement period from October 1, 2005 to October 1, 2006 has been used for the year ended December 31, 2006. The liabilities and assets are calculated at October 1, 2006. Assets are adjusted for known contributions received by the Company between October 1, 2006 and December 31, 2006.

The following table sets forth the plan's funded status:

	Year ended December 31,	
	2006	2005
Change in Benefit Obligation:		
Projected benefit obligation at beginning of year.	$3,054,346	$2,805,529
Service cost.....	111,449	107,786
Interest cost.....	158,489	152,104
Actuarial (gain)/loss.....	(24,773)	244,413
Benefits paid.....	(35,723)	(255,486)
Purchase of annuity for retiree	(349,099)	-
Projected benefit obligation at end of year.....	$2,914,689	$3,054,346

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UNITED-GUARDIAN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2006 and 2005

Note F (continued)

Change in Plan Assets:		
Fair value of plan assets at beginning of year....	$2,314,362	$2,235,475
Actual return on plan assets.....	780,987	134,373
Employer contributions.....	200,000	200,000
Benefits paid.....,..	(35,723)	(255,486)
Other.....	(349,099)	-
Fair value of plan assets at end of year.....	$2,208,527	$2,314,362
Funded status at end of year (underfunded).....	$ (706,162)	$ (739,984)
Amounts recognized in statement of financial position		
Noncurrent Liabilities.....	$ (706,162)	N/A
Amounts recognized in accumulated Other Comprehensive Income ("OCI")		
Total net loss.....	$ 766,283	N/A
Prior service cost.....	31,998	N/A
Total accumulated OCI(not adjusted for applicable tax.....	$ 798,281	N/A
Weighted-average assumptions used to determine benefit obligations		
Discount rate.....	5.50%	5.25%
Rate of compensation increase.....	5.50%	5.42%

The net periodic benefit cost includes the following components:

	Year ended December 31,	
	2006	2005
Components of net periodic benefit cost:		
Service cost.....	$ 111,449	$ 107,786
Interest cost.....	158,489	152,104
Expected return on plan assets.....	(162,412)	(148,983)
Amortization of net actuarial loss.....	61,444	40,984
Amortization of prior service cost.....	7,461	7,461
Effect of special events.....	91,817	-
Net periodic benefit cost.....	$ 268,248	$ 159,352

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Note F (continued)

Other changes recognized in OCI		
Net loss	$ 58,652	$ N/A
Amortization of net gain	(61,444)	N/A
Amortization of prior service cost	(7,461)	N/A
Amount recognized due to special event	(91,817)	N/A
Total recognized in other comprehensive income.	$ (102,070)	$ N/A
Total recognized in net periodic benefit cost and OCI	$ 166,178	$ N/A
Weighted-average assumptions used to determine net period benefit cost		
Discount rate	5.25%	5.50%
Expected long-term return on plan assets	7.00%	7.00%
Rate of compensation increase	5.42%	5.51%

Note: N/A - these items are new this year due to the adoption of SFAS 158. Retrospective application is not permitted.

401(k) Plan

The Company maintains a 401(k) Plan for all of its eligible employees. Under the plan, employees may defer up to 15% of their weekly pay as a pretax investment in a savings plan. In addition, the Company made contributions of 50% of the first 6% of each employee's elective deferral up to a maximum employer contribution of 3% of biweekly pay. Employees become fully vested in Company contributions after one year of employment. 401(k) Company contributions were approximately $64,000 and $57,000 for the years ended December 31, 2006 and 2005, respectively.

Stock Option Plans

At its meeting on March 19, 2004 the Board of Directors of the Company approved the adoption of the 2004 Stock Option Plan. The new plan covers both employees and Directors. The adoption and implementation of the new plan was ratified by the shareholders of the Company at the Company's annual meeting of shareholders on May 19, 2004.

The following summarizes the stock option transactions from the expired Employee Incentive Stock Option Plan ("EISOP") and Non-Statutory Stock Option Plan for Directors ("NSSOPD"):

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UNITED-GUARDIAN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2006 and 2005

Note F (continued)

EISOP	Number outstanding	Weighted average exercise price
Options outstanding January 1, 2005....	5,900	3.39
Exercised	(1,600)	3.67
Options outstanding and exercisable at December 31, 2005	4 300	3.29
Options outstanding and exercisable at December 31, 2006.....	4,300	3.29
Available for grant at December 31, 2006	0	
NSSOPD		
Options outstanding at January 1, 2005 .	8,000	3.51
Exercised	(4,000)	3.51
Options outstanding and exercisable at December 31, 2005	4,000	3.51
Exercised	(4,000)	3.51
Options outstanding and exercisable at December 31, 2006	0	
Available for grant at December 31, 2006	0	

At December 31, 2006,the intrinsic value of the 4,300 share awards outstanding was $24,586.

In 2004, the Company authorized up to 500,000 shares to be granted under the 2004 Stock Option Plan.

Summarized information about stock options outstanding under these plans at December 31, 2006 is as follows:

<PAGE>

NOTE F (continued)

<TABLE>
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	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Shares Outstanding at December 31,2006	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Shares Exercisable at December 31,2006	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>
EISOP					
$2.06 - $3.00	1,100	1.54	$2.66	1,100	$2.66
$3.51	3,200	5.90	3.51	3,200	3.51
$2.06 - $3.51	4,300	4.78	$3.29	4,300	$3.29

</table>

As of December 31, 2006 there was no remaining unrecognized compensation cost related to the non-vested share-based compensation arrangements granted under the Company's plans.

The Company did not record any compensation expense during the year ended December 31, 2006 under the provisions of FAS 123R.

Cash received from option exercise under all share-based payment arrangements for the year ended December 31, 2006 was $14,040.

NOTE G - EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share at December 31, 2006 and 2005:

	2006	2005
Numerator:		
Net income	$ 2,737,232	$2,617,483
Denominator:		
Denominator for basic earnings per share (weighted average shares)	4,941,657	4,935,472
Effect of dilutive securities:		
Employee stock options	3,064	6,386

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NOTE G (continued)

Denominator for diluted earnings per share (adjusted weighted-average shares) and assumed conversions	4,944,721	4,941,858
Basic and diluted earnings per share	$ 0.55	$ 0.53

In 2006 and 2005 there were no options excluded from the computation of diluted earnings per share.

NOTE H - NATURE OF BUSINESS AND SEGMENT INFORMATION

The Company has the following two reportable business segments: Guardian Laboratories and Eastern Chemical. The Guardian segment conducts research, development and manufacturing of cosmetic ingredients, personal and health care products, pharmaceuticals and specialty industrial products. The Eastern segment distributes fine chemicals, solutions, dyes and reagents.

The accounting policies used to develop segment information correspond to those described in the summary of significant accounting policies. Segment earnings or loss is based on earnings or loss from operations before income taxes. The reportable segments are distinct business units operating in different industries. They are separately managed, with separate marketing and distribution systems. The following information about the two segments is for the years ended December 31, 2006 and 2005.

<TABLE>
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	2006			2005		
	GUARDIAN	EASTERN	TOTAL	GUARDIAN	EASTERN	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues from external customers	$11,207,903	$ 987,769	$12,195,672	$11,075,696	$ 1,059,300	$12,134,996
Depreciation and amortization	87,306	-	87,306	94,810	-	94,810
Segment income (loss) before income tax expense	3,884,979	5,501	3,890,480	3,937,574	80,355	4,017,929
Segment assets	3,434,014	435,036	3,869,050	2,599,895	387,570	2,987,465
Capital expenditure	57,297	-	57,297	82,748	-	82,748

</table>

<PAGE>

NOTE H (continued)

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Reconciliation to Consolidated Amounts

<S>	<C>	<C>
Income before income taxes		
Total income for reportable segments	$ 3,890,480	$ 4,017,929
Other income, net	412,461	237,459
Corporate headquarters expense	(165,770)	(166,114)
Consolidated income before income taxes	$ 4,137,171	$ 4,089,274
Assets		
Total assets for reportable segments	$ 3,869,050	$ 2,987,465
Corporate headquarters	12,075,042	12,034,772
Total consolidated assets	$15,944,092	$15,022,237

</TABLE>
<TABLE>
<caption>
Other Significant Items

	2006			2005		
	Segment Totals	Corporate	Consolidated Totals	Segment Totals	Corporate	Consolidated Totals
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Capital expenditures	$57,297	$ 61,080	$118,377	$82,748	$ 73,872	$156,620
Depreciation and amortization	$87,306	$108,063	$195,369	$94,810	$111,001	$205,811

</TABLE>
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<CAPTION>
Geographic Information

	2006		2005	
	Revenues	Long-Lived Assets	Revenues	Long-Lived Assets
<S>	<C>	<C>	<C>	<C>
United States	$ 5,827,671	$ 848,793	$ 5,891,221	$ 948,480
France	1,485,384		1,579,943	
Other countries	4,882,617		4,663,832	
	$12,195,672	$ 848,793	$12,134,996	$ 948,480

</table>

NOTE H (continued)

<table>

Major Customers		
Customer A (Guardian)	$ 4,298,625	$ 4,497,547
Customer B (Guardian)	1,227,466	1,357,764
All other customers	6,669,581	6,279,685
	$12,195,672	$12,134,996

</TABLE>

NOTE I - CONTINGENCIES

While the Company has claims that arise from time to time in the ordinary course of its business, the Company is not currently involved in any material claims.

NOTE J - RELATED PARTY TRANSACTIONS

During the years ended December 31, 2006 and 2005 the Company paid to Henry Globus, a former officer and current Director of the Company, $20,352 and $19,608 respectively, for consulting services in accordance with his employment termination agreement of 1988.

During each of the years ended December 31, 2006 and 2005 the Company paid to Bonamassa , Maietta, and Cartelli, LLP, $10,500 for accounting and tax services. Lawrence Maietta, a partner in Bonamassa, Maietta, and Cartelli, LLP, is currently a Director of the Company.

NOTE K - SUBSEQUENT EVENT

On January 17, 2007 the Company entered into a line of credit agreement with JPMorgan Chase Bank for borrowings of up to $2,000,000 at an interest rate of 1% below the Prime Rate. The inital line of credit will expire on June 30, 2007, but it is expected that the Company will renew the line on an annual basis thereafter. As of March 1, 2007 the Company had no outstanding balance on this credit line.