



UNITED-GUARDIAN, INC.

Corporate Divisions and Subsidiaries
GUARDIAN LABORATORIES
EASTERN CHEMICAL

Corporate Headquarters:
230 MARCUS BLVD.
HAUPPAUGE, NY 11788

Mailing Address:
P.O. BOX 18050
HAUPPAUGE, NY 11788

TEL: (631) 273-0900
FAX: (631) 273-0858
E-MAIL: pgc@u-g.com

First Quarter 2006 Report to Stockholders

June 9, 2006

Dear Stockholder:

The first quarter of 2006 was another very profitable one, with earnings of \$622,000 (\$.13 per share) on sales of almost \$2.9 million. As many of you are aware, our first quarter sales and earnings were down compared to last year, but that was not the result of any meaningful decline in business. Rather, it was the result of two factors that came into play last year that did not recur this year. The biggest factor was the surge in orders for our pharmaceutical products that occurred in February, 2005 because of a price increase that was scheduled to go into effect on March 1st. Many of our customers ordered significantly larger quantities than normal in order to avoid paying the increased price.

The other factor involved sales of our personal care products, which were unusually strong in January, 2005 because some customers had requested that we hold some December shipments until after the first of the year, presumably to keep their inventories down. Those orders went out in the beginning of 2005, resulting in an unusually strong January last year.

Since neither of those situations recurred this year, our first quarter sales were very close to what we averaged each quarter last year. In fact, with earnings of \$.13 cents a share we were almost exactly one-fourth of last year's total earnings. With sales in April and May of this year totaling approximately \$2.2 million, we are hopeful that we will make up some of this difference as the year progresses.

In April we met with all of our foreign distributors, who indicated that they expected this year to be comparable to, or slightly better than, last year in terms of personal care products. Our largest marketing partner, ISP, has indicated to us that their sales of our products are up about 12% this year, which they were very pleased with, and they were very positive about the potential for continuing sales increases in the future. We are working hard to provide them and our other marketing partners with new products on a regular basis.

One of those products is our new Lubrasil II Extra, which is an enhancement of our original Lubrasil, a microemulsion of 1% silicone in a Lubrajel base. This new product is also a microemulsion but uses different technology and raw materials. Assuming that all of our current testing is positive, this new product will incorporate up to 20% silicone, or 20 times the original, which is a significant enhancement. Samples of this product were shown to our marketing partners at the In-Cosmetics conference in April, and the product was received very well. They are all anxious to show the product to their customers. If all goes well we expect to begin sampling by the end of July. We are also looking into other possible versions of the product that use different types of silicone, which may

expand the potential market even further. Our hope is that these new products will bring in new customers that could not use the original Lubrasil because the level of silicone was not high enough.

While I can't go into detail at the present time, we are working on developing a new type of polymer-based thickener for the personal care industry that could have some very unusual and unique properties. This project is in a very early development stage, but it has some very exciting potential, and, if we are successful, it could open up a whole new market for us. We are in the process of filing a preliminary patent application to protect us, after which I will be able to go into more detail.

As happened last year about this time, our Board of Directors, at its meeting in May, authorized the issuance of another special cash dividend of \$.25 per share to all stockholders of record as of the close of business on June 2nd, which will be paid to stockholders on June 16th. The Board made this decision based on the company's strong sales to date and a positive sales and revenue projection for the rest of the year. Over the past few years we have taken the position that we would like, as much as possible, to share our success with our stockholders, and we believe that this is the best way to do that. In doing so the Board has taken into account the company's need for capital in the near future, and with over \$10 million in cash and cash equivalents (including marketable securities) the Board felt that it was appropriate to once again declare a special dividend.

We are still awaiting the start of a federal government test of Cloronine, our chlorine-based antimicrobial product, as a decontamination agent. We have been waiting for those tests to begin for a long time now, and the current estimate is that the tests will begin in September. Since we are not the only company whose products are being tested, there is no way for us to know how likely it will be that we will be chosen for further testing. However, if the test results are positive this could be a very exciting project. We have also developed a gel form of that product which may be even more effective for vertical surface decontamination, which we hope to have them test as well.

I am happy to report that we have agreed on the terms of a new consulting agreement with the marketing consultant who previously worked with us to help us focus our development efforts. She will be assisting us in developing new markets for our products, particularly in the medical area where we currently do not have the same strong marketing efforts in place that we have for our personal care products. This person is very experienced and well known in the personal care industry, and we are very excited that she has agreed to work with us. We are optimistic that she will enable us to further expand the market for our products. She expects to begin her work in July.

We have had a solid start to the new year, and are pleased with the second quarter sales as well. It is our hope that with our new product developments and introductions, along with the assistance we will now be receiving from our new marketing consultant, that we will be able to continue to grow the company while maintaining the strong financial condition that we have been able to achieve over the past few years.

Sincerely,

UNITED-GUARDIAN, INC.

A handwritten signature in black ink, appearing to read "Alfred R. Globus". The signature is written in a cursive style with a large, sweeping initial "A".

DR. ALFRED R. GLOBUS
Chairman and CEO

**RESULTS FOR THE FIRST QUARTER ENDED
MARCH 31, 2006 and MARCH 31, 2005**

	3 Months Ended March 31,	
	<u>2006</u>	<u>2005</u>
Revenue:	\$ 2,864,797	\$ 3,880,117
Costs and expenses:	1,993,735	2,437,460
Income from operations:	871,062	1,442,657
Other (loss) income:	80,423	(47,940)
Income before income taxes:	951,485	1,394,717
Provision for income taxes:	329,500	539,000
Net income:	\$ 621,985	\$ 855,717
Earnings per share (Basic and Diluted):	\$.13	\$.17

CONSOLIDATED BALANCE SHEETS

	MARCH 31, <u>2006</u>	DECEMBER 31, <u>2005</u>
	(UNAUDITED)	(AUDITED)
ASSETS:		
Current assets:	\$13,953,769	\$13,965,077
Property, plant and equipment (less accumulated depreciation):	917,976	948,480
Other assets:	<u>108,430</u>	<u>108,680</u>
	<u>\$14,980,175</u>	<u>\$15,022,237</u>
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Current liabilities:	\$ 1,028,272	\$ 1,683,432
Deferred income taxes	59,817	59,817
Stockholders' equity:	<u>13,892,086</u>	<u>13,278,988</u>
	<u>\$14,980,175</u>	<u>\$ 15,022,237</u>

NOTE: More detailed financial information can be found in the company's SEC filings on the company's web site at :

http://www.u-g.com/corporate/SEC_Filings.html