



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

Second Quarter 2005 Report to Stockholders

September 16, 2005

Dear Stockholder:

I am pleased to report that sales and earnings for the first six months of the year both reached new highs, despite indications that the overall market for personal care products has been flat this year. Sales for the first half of the year reached \$6,647,572, an increase of 11% over the same period last year, and earnings were \$.30 per share, a new high for any six month period and up from \$.28 per share for the same period last year.

As I had mentioned in my first quarter report to stockholders, our first quarter sales were unusually high for two reasons. First, some customers at the end of last year requested that some shipments not go out until after the first of the year, which shifted some sales from the fourth quarter of last year to this year's first quarter. Second, some of our pharmaceutical customers took in extra inventory in the first quarter in anticipation of a price increase that went into effect in March. This anticipatory buying in the first quarter caused a decline in sales in the beginning of the second quarter as compared to last year. We expect this to even out during the third quarter. Irrespective of this slowdown in pharmaceutical sales in the second quarter, the two quarters together still resulted in a record six months for sales and earnings.

We recently received some very good news from International Specialty Products ("ISP"), one of our most important marketing partners. ISP was notified that one of their most important customers, and one of the largest personal care products companies in the world, is going to be incorporating our Lubrajel Oil and Lubrajel II XD into two new consumer products that it will be bringing to market sometime after the first of the year. The company is one to which we have been sampling our products for many years, but this is the first time we know of that they have incorporated our products into their formulations. We expect sales to them to begin in the fourth quarter of this year. Preliminary estimates are that in the first year they will require between 200,000 and 300,000 pounds of Lubrajel Oil for just one of those two new products. We do not yet have projections for the second product. We are very excited about finally having our products used by this major company, and are hopeful that this will lead to them purchasing additional products of ours in the future.

We are continuing to work on implementing new manufacturing methods which, if successful, will enable us to bring our production costs down and substantially increase our level of production without having to significantly increase our personnel. We have been working on this project for a while now, and are confident that we will be able to implement some manufacturing changes that will enable us to continue to increase our production capacity as our sales increase, with very little additional cost.

We will also be purchasing some new equipment for our R&D department that will better enable us to develop new and innovative personal care raw materials. There are certain areas of product development that we cannot carry on now because of the lack of specialized equipment. We feel the time is right now to invest in this equipment in order to enable us to develop new lines of products.

This will be particularly useful in light of our new arrangement with a well-known and respected business consultant who specializes in the personal care market. This consultant will be performing some market research and analysis and assisting us with the development of new products that we hope will be on the cutting edge of what the personal care companies are looking for today. Her report is expected to be finished by the end of October, but we should be receiving some initial feedback by the end of September. We are very hopeful that this new market input, along with our investment in this new equipment, will enable us to bring new products to market faster to take advantage of current trends in the personal care marketplace.

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 long, sweeping underline.

DR. ALFRED R. GLOBUS
Chairman and CEO

**RESULTS FOR THE SECOND QUARTER ENDED
JUNE 30, 2005 and JUNE 30, 2004**

CONSOLIDATED STATEMENTS OF EARNINGS

	SIX MONTHS ENDED JUNE 30,	THREE MONTHS ENDED JUNE 30,
	2005	2005
	2004	2004
Revenue:		
Net sales	\$ 6,647,572	\$ 5,990,071
	-----	-----
Costs and expenses:		
Cost of sales	3,041,560	2,598,815
Operating expenses	1,325,339	1,347,487
	-----	-----
	4,366,899	3,946,302
	-----	-----
Income from operations	2,280,673	2,043,769
	-----	-----
Other income (expense):		
Investment income	161,291	106,412
Loss on sale of marketable securities	(114,231)	-
Other	(48)	(17)
	-----	-----
Income before income taxes	2,327,685	2,150,164
	-----	-----
Provision for income taxes	860,900	768,000
	-----	-----
Net income	\$ 1,466,785	\$ 1,382,164
	=====	=====
Earnings per common share (basic and diluted)	\$ 0.30	\$ 0.28
	-----	-----
Weighted average shares - basic	4,932,761	4,926,753
	-----	-----
Weighted average shares -diluted	4,940,239	4,937,206
	=====	=====
	-----	-----
	\$ 2,767,455	\$ 3,022,968
	-----	-----
	1,272,793	1,325,555
	-----	-----
	656,646	701,636
	-----	-----
	1,929,439	2,027,191
	-----	-----
	838,016	995,777
	-----	-----
	94,952	49,320
	-----	-----
	-	-
	-----	-----
	932,968	1,045,097
	-----	-----
	321,900	372,800
	-----	-----
	\$ 611,068	\$ 672,297
	=====	=====

CONSOLIDATED BALANCE SHEETS

	JUNE 30 2005	DECEMBER 31, 2004
<u>ASSETS</u>	----- (UNAUDITED)	----- (DERIVED FROM AUDITED FINANCIAL STATEMENTS)
Current assets:		
Cash and cash equivalents	\$ 2,191,186	\$ 3,735,945
Temporary investments	698,052	402,288
Marketable securities	7,085,053	6,251,764
Accounts receivable, net of allowance for doubtful accounts of \$33,971 and \$45,000 at June 30, 2005 and December 31, 2004, respectively	1,481,111	918,085
Inventories (net)	1,039,641	1,375,880
Prepaid expenses and other current assets	328,942	515,425
Deferred income taxes	196,417	223,617
Total current assets	----- 13,020,402 -----	----- 13,423,004 -----
Property, plant and equipment:		
Land	69,000	69,000
Factory equipment and fixtures	3,033,217	2,975,305
Building and improvements	2,117,144	2,089,547
Waste disposal plant	133,532	133,532
	----- 5,352,893	----- 5,267,384
Less: Accumulated depreciation	4,370,237	4,269,713
	----- 982,656 -----	----- 997,671 -----
Other assets	258	700
	----- \$ 14,003,316 =====	----- \$ 14,421,375 =====

	JUNE 30, 2005	DECEMBER 31, 2004
	----- (UNAUDITED)	----- (DERIVED FROM AUDITED FINANCIAL STATEMENTS)
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current liabilities:		
Dividends payable	\$ -	\$ 887,677
Accounts payable	201,366	172,320
Accrued expenses	526,221	395,167
Taxes payable	24,228	-
	-----	-----
Total current liabilities	751,815	1,455,164
	-----	-----
Deferred income taxes	10,000	10,000
	-----	-----
Stockholders' equity:		
Common stock \$.10 par value, authorized, 10,000,000 shares; 4,996,339 and 4,994,739 shares issued, respectively, and 4,934,139 and 4,932,539 shares outstanding, respectively	499,634	499,474
Capital in excess of par value	3,762,648	3,756,943
Accumulated other comprehensive loss	(40,955)	(86,730)
Retained earnings	9,379,804	9,146,154
Treasury stock, at cost; 62,200 shares	(359,630)	(359,630)
	-----	-----
Total stockholders' equity	13,241,501	12,956,211
	-----	-----
	\$ 14,003,316	\$ 14,421,375
	=====	=====

NOTE: More detailed financial information can be found in the company's Form 10-QSB for the 2nd quarter of 2005, which is available upon request or can be viewed and/or downloaded from the company's web site at the following internet address:

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