



UNITED-GUARDIAN, INC.

Corporate Divisions and Subsidiaries
GUARDIAN LABORATORIES
EASTERN CHEMICAL

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Second Quarter 2006 Report to Stockholders

September 14, 2006

Dear Stockholder:

The second quarter of 2006 was another strong quarter for us, with revenue up 10.5% and income up 6.4% over the same quarter last year. Sales for the quarter increased from \$2,767,455 in the second quarter of FY-2005 to \$3,057,015 this year, and net income increased from \$611,068 (\$.12 per share) in FY-2005 to \$650,396 (\$.13 per share) this year.

For the six months ended June 30th we are still lagging behind last year, primarily because of the unusually strong first quarter we had in 2005. In February of 2005 there had been a surge in orders for our pharmaceutical products because of a price increase that was scheduled to go into effect on March 1st. This caused many customers to order significantly larger quantities than normal prior to March 1st in order to avoid paying the higher price. In addition, at the end of 2004 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 a very strong month in January of last year.

As a result of both of those factors we had an unusually strong first quarter last year. Since the factors that were responsible for that did not occur again this year, our first quarter this year was not as strong as last year, and we are still working to make up for that shortfall. We are hopeful that we will continue to close this gap as the year progresses.

I am happy to announce that we have formally launched the newest product in the Lubrajel line, which will be marketed under the name "Lubrasil II DM" (it was referred to previously as "Lubrasil II Extra"). This is the second product to be launched as the next generation of Lubrajel products. Like our original Lubrasil, this product is a microemulsion of silicone in a water-based gel. However, unlike the original Lubrasil, which contained 1% silicone, this new product contains 20% silicone while still retaining its clarity. We believe that there were many customers who would like to have used our original Lubrasil but couldn't for economic reasons, since in order to get the full benefit of the enhanced feel that the silicone imparts it would have required too high a percentage of our product. The new product, with its much higher level of silicone, should attract some of those customers, who can now use a much smaller amount of our product and still get the high levels of silicone in their finished products. In addition, we have been able to streamline the manufacturing of this product, enabling us to be very competitive on our pricing. We are also working on a second product in this

line, which will use a different type of silicone which may bring in additional customers. We are very excited about our launch of this new product, and expect it to begin to contribute to revenue early next year.

Our current R&D focus is on synthesizing a new polymer with some unique properties that we believe could have very good revenue potential in the personal care market. To date we have only made small lab quantities, and are still performing our initial tests to confirm that it has the properties we are looking for. We are also making an initial submission to the patent office, after which I can go into more detail about exactly what we are developing. If all goes well we will be looking for a partner to work with us to scale up production and commercialize the product. If successful this would be a unique product in the marketplace. I have to stress, however, that this project is still in an early stage of development.

In past letters I have mentioned that the federal government had commissioned a test of various disinfecting products to find a product that could be used, among other things, to decontaminate buildings. Cloronine, our chlorine-based microbicide, was one of the products to be tested. After some delays the tests were finally conducted in August, with Cloronine being tested on various surfaces against bleach. We did much better than bleach on carpeting, a little better on wood, about the same on glass, and worse on metal ductwork. The final report is expected to be submitted to the EPA this month, at which time we will have more details. Since our product is much safer to use than bleach, we are hoping that even if the results were not quite as good as bleach on some of the surfaces that the EPA would still see it as a viable product, particularly for carpet where it far exceeded the efficacy of bleach. I will continue to update you as we get more information on this project.

We have just finalized an agreement with our new marketing consultant, who 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. She will also work with us to help us focus our development efforts in the personal care products market. She is very experienced and well known in the industry, and we are looking forward to working with her.

Our sales for both July and August were strong, so we are optimistic that this year's third quarter will be another good one for us. With the introduction of our new Lubrasil II line we expect to continue to expand the market for our products, and our ongoing R&D efforts, combined with the marketing expertise of our new consultant, should enable us to continue this expansion.

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 prominent initial "A".

DR. ALFRED R. GLOBUS
Chairman and CEO

**RESULTS FOR THE SECOND QUARTER ENDED
JUNE 30, 2006 and JUNE 30, 2005**

CONSOLIDATED STATEMENTS OF EARNINGS
(UNAUDITED)

	SIX MONTHS ENDED		THREE MONTHS ENDED	
	June 30,		JUNE 30,	
	2006	2005	2006	2005
	-----	-----	-----	-----
Revenue:				
Net sales	\$ 5,921,812	\$ 6,647,572	\$ 3,057,015	\$ 2,767,455
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Costs and expenses:				
Cost of sales	2,793,799	3,041,560	1,441,188	1,272,793
Operating expenses	1,374,458	1,325,339	733,334	656,646
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	4,168,257	4,366,899	2,174,522	1,929,439
	-----	-----	-----	-----
Income from operations	1,753,555	2,280,673	882,493	838,016
Other income (expense):				
Investment income	195,102	161,291	114,679	94,952
Loss on sale of marketable securities	(349)	(114,231)	(349)	-
Other	(227)	(48)	(227)	-
	-----	-----	-----	-----
Income before income taxes	1,948,081	2,327,685	996,596	932,968
Provision for income taxes	675,700	860,900	346,200	321,900
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Net income	\$ 1,272,381	\$ 1,466,785	\$ 650,396	\$ 611,068
	=====	=====	=====	=====
Earnings per common share (basic and diluted)	\$.26	\$.30	\$.13	\$.12
	=====	=====	=====	=====
Weighted average shares - basic	4,941,167	4,932,761	4,942,139	4,932,981
	=====	=====	=====	=====
Weighted average shares - diluted	4,944,600	4,940,239	4,944,876	4,940,204
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CONSOLIDATED BALANCE SHEETS

	JUNE 30, 2006	DECEMBER 31, 2005
ASSETS	----- (UNAUDITED)	----- (AUDITED)
Current assets:		
Cash and cash equivalents	\$ 2,359,165	\$ 3,425,593
Temporary investments	1,002,582	699,363
Marketable securities	6,461,173	7,066,797
Accounts receivable, net of allowance for doubtful accounts of \$36,288 and \$47,500 at June 30, 2006 and December 31, 2005, respectively	1,058,918	1,083,992
Inventories (net)	1,514,863	1,031,563
Prepaid expenses and other current assets	443,003	440,380
Deferred income taxes	255,189	217,389
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Total current assets	13,094,893	13,965,077
	-----	-----
Property, plant and equipment:		
Land	69,000	69,000
Factory equipment and fixtures	3,087,972	3,068,050
Building and improvements	2,140,405	2,133,422
Waste disposal plant	133,532	133,532
	-----	-----
	5,430,909	5,404,004
Less: Accumulated depreciation	4,550,036	4,455,524
	-----	-----
	880,873	948,480
	-----	-----
Other assets	148,430	108,680
	-----	-----
	\$ 14,124,196	\$ 15,022,237
	=====	=====

	June 30, 2006	DECEMBER 31, 2005
	----- (UNAUDITED)	----- (AUDITED)
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Dividends payable	\$ -	\$1,086,391
Accounts payable	190,067	148,051
Accrued expenses	605,342	448,990
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Total current liabilities	795,409	1,683,432
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Deferred income taxes	59,817	59,817
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Stockholders' equity:		
Common stock \$.10 par value, authorized, 10,000,000 shares; 5,004,339 and 5,000,339 shares issued, respectively, and 4,942,139 and 4,938,139 shares outstanding, respectively	500,434	500,034
Capital in excess of par value	3,792,478	3,778,838
Accumulated other comprehensive loss	(145,269)	(84,365)
Retained earnings	9,480,957	9,444,111
Treasury stock, at cost; 62,200 shares	(359,630)	(359,630)
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Total stockholders' equity	13,268,970	13,278,988
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	\$ 14,124,196	\$ 15,022,237
	=====	=====