



# UNITED-GUARDIAN, INC.

Corporate Divisions and Subsidiaries  
GUARDIAN LABORATORIES  
EASTERN CHEMICAL

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## Third Quarter 2006 Report to Stockholders

December 5, 2006

Dear Stockholder:

We continued to show strong sales and earnings for the third quarter, with sales reaching virtually the same levels as the second quarter, and with earnings slightly higher. Compared with last year's third quarter, sales were almost identical (\$3,049,494 last year versus \$3,020,366 this year) and earnings were down slightly from \$775,716 (\$0.16) last year to \$710,868 (\$0.14 per share) this year. For the nine-month period ended September 30th, sales decreased from \$9,697,066 to \$8,942,178, and earnings decreased from \$2,242,501 (\$0.45 per share) to \$1,983,249 (\$0.40 per share).

All of the year-to-date decline in sales compared with last year was due to an unusually strong first quarter in 2005, which was the result of a number of factors, which I have discussed in detail in my previous two stockholders letters. However, another factor has been the ordering patterns of our customers, which can make a big difference from one quarter to the next, depending on the size of the orders and when they are received. We believe that this is one of the reasons why our current fourth quarter sales are unusually strong this year. In fact, in the first two months of this quarter our sales are already close to what we did for the entire fourth quarter last year. While it is too early to tell whether this is a real increase in sales or just a shifting of sales, the good news is that assuming that we have at least average December sales, it appears that by the end of the year we will have made up for at least some, if not all, of the year-to-date sales and earnings shortfall.

I normally don't go into details on our financial statements, but I did want to point out one item that could be misinterpreted. If you look at our current assets you will notice that our inventory levels increased by about \$1 million, which is about double what it was at this time last year. There was also a commensurate decrease in cash. This was attributable to our need to bring in additional inventory of our Renacidin® Irrigation while we are awaiting F.D.A. approval for a change in the manufacturing facility. Renacidin is made jointly by us and Hospira (previously part of Abbott Laboratories). Hospira decided to move the manufacturing of our product (as well as many of their own products) to a new manufacturing facility, and this change requires F.D.A. approval. That process is expected to take 6-12 months from the time the application is submitted, which is expected to be in mid-December. Until that facility is approved for the manufacturing of our product they cannot manufacture any more product for us. For that reason, we worked with them to provide us with enough additional inventory to last us well into the first quarter of 2008. That is why our inventory levels have increased so much.

I am very happy to report that we have made some exciting progress on one of our ongoing projects. We have been working for over a year with Howard Industries, one of the leading companies in the custom chemical processing industry, who in turn has been working with Battelle, a global company that assists in the development and commercialization of new technologies, to find new markets for Cloronine™, our chlorine-based microbicide. I previously reported on their testing of Cloronine for disinfecting contaminated buildings, which produced mixed results. They have now found a new use for the product in the food industry that could be very exciting. While I can't go into details yet, they will be doing some field tests over the next month, and, if successful, will begin the process of obtaining the necessary regulatory approvals. They are also looking at additional uses for that product, and we will be developing additional products for them, the first of which is already in development. I will report on this project in more detail in my next stockholders report.

Our most recently released product, "Lubrasil II DM", a microemulsion of silicone in Lubrajel, has now been sampled to all of our marketing partners around the world, and so far the feedback has been very good. It can take many months for customers to formulate with new raw materials, but we think it has excellent potential, and we hope to start seeing sales of this product in the first quarter of next year. The Lubrasil II DM contains 20% silicone (compared to 1% in the original Lubrasil), which we believe will make it attractive to many more customers than the previous product. We have also developed a sister product, to be marketed as "Lubrasil II SB", which contains 20% of a different blend of silicones, which gives the product different properties than the DM. We hope this will expand the market even further.

We are continuing to work on the development of a new polymer with some unique properties, which could have some very interesting potential if we are successful. That product is undergoing testing and is still in the development stage. If our initial results are good we will be looking for a partner to work with us to manufacture and market the new product.

I previously reported that we had engaged a well-known and respected business consultant to help us with our marketing efforts. She will be working with us to expand our marketing efforts, especially for our line of medical products. She has started her work for us this month, and is very optimistic about her ability to generate new business for us. We are very pleased that she has agreed to work with us, since she has broad experience in the personal care industry. We are confident that she will enable us to develop new markets for those products of ours that are not now being actively marketed.

As a result of the excellent start to the fourth quarter we are optimistic that this year will be another strong one for us. With the new products we are introducing, along with our partnership with Howard Industries, we are very excited about our prospects for the coming year.

I hope everyone has a very happy holiday season, and wish you all a healthy and happy New Year.

Sincerely,

UNITED-GUARDIAN, INC.

A handwritten signature in black ink, appearing to read "Alfred R. Globus". The signature is fluid and cursive, with a prominent initial "A".

DR. ALFRED R. GLOBUS  
Chairman and CEO

RESULTS FOR THE THIRD QUARTER ENDED  
SEPTEMBER 30, 2006 and SEPTEMBER 30, 2005

CONSOLIDATED STATEMENTS OF EARNINGS  
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30,		THREE MONTHS ENDED SEPTEMBER 30,	
	2006	2005	2006	2005
	-----	-----	-----	-----
Revenue:				
Net sales	\$ 8,942,178	\$9,697,066	\$ 3,020,366	\$ 3,049,494
	-----	-----	-----	-----
Costs and expenses:				
Cost of sales	4,235,851	4,408,053	1,442,052	1,366,493
Operating expenses	1,966,602	1,885,612	592,144	560,273
	-----	-----	-----	-----
	6,202,453	6,293,665	2,034,196	1,926,766
	-----	-----	-----	-----
Income from operations	2,739,725	3,403,401	986,170	1,122,728
Other income (expense):				
Investment income	303,718	235,466	108,616	74,175
Loss on sale of marketable securities	(1,134)	(113,888)	(785)	343
Other	(1,060)	(178)	(833)	(130)
	-----	-----	-----	-----
Income before income taxes	3,041,249	3,524,801	1,093,168	1,197,116
Provision for income taxes	1,058,000	1,282,300	382,300	421,400
	-----	-----	-----	-----
Net income	\$ 1,983,249	\$ 2,242,501	\$ 710,868	\$ 775,716
	=====	=====	=====	=====
Earnings per common share (basic and diluted)	\$ .40	\$ .45	\$ .14	\$ .16
	=====	=====	=====	=====
Weighted average shares - basic	4,941,494	4,934,528	4,942,139	4,937,356
	=====	=====	=====	=====
Weighted average shares - diluted	4,944,637	4,941,266	4,944,704	4,942,614
	=====	=====	=====	=====

CONSOLIDATED BALANCE SHEETS

	SEPTEMBER 30, 2006	DECEMBER 31, 2005
ASSETS	----- (UNAUDITED)	----- (AUDITED)
<b>Current assets:</b>		
Cash and cash equivalents	\$ 2,264,167	\$ 3,425,593
Temporary investments	764,550	699,363
Marketable securities	6,631,398	7,066,797
Accounts receivable, net of allowance for doubtful accounts of \$36,288 and \$47,500 at September 30, 2006 and December 31, 2005, respectively	1,540,320	1,083,992
Inventories (net)	2,007,113	1,031,563
Prepaid expenses and other current assets	365,480	440,380
Deferred income taxes	218,901	217,389
Total current assets	----- 13,791,929 -----	----- 13,965,077 -----
 <b>Property, plant and equipment:</b>		
Land	69,000	69,000
Factory equipment and fixtures	3,108,142	3,068,050
Building and improvements	2,161,175	2,133,422
Waste disposal plant	133,532	133,532
	-----	-----
	5,471,849	5,404,004
Less: Accumulated depreciation	4,599,873	4,455,524
	-----	-----
	871,976	948,480
	-----	-----
Other assets	148,430	108,680
	-----	-----
	\$ 14,812,335	\$ 15,022,237
	=====	=====
 <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Dividends payable	\$ -	\$1,086,391
Accounts payable	242,992	148,051
Accrued expenses	394,055	448,990
Taxes Payable	62,303	-
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Total current liabilities	699,350	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	(71,939)	(84,365)
Retained earnings	10,191,825	9,444,111
Treasury stock, at cost; 62,200 shares	(359,630)	(359,630)
	-----	-----
Total stockholders' equity	14,053,168	13,278,988
	-----	-----
	\$ 14,812,335	\$ 15,022,237
	=====	=====

**NOTE:** More detailed financial information can be found in the company's Form 10-QSB for the 3rd quarter of 2006, 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](http://www.u-g.com/corporate/SEC_Filings.html)