



# 2006 ANNUAL REPORT

to the Stockholders of  
**UNITED-GUARDIAN, INC.**

April 20, 2007

Dear Stockholder,

I am happy to report that despite the fact that FY-2006 started out slower than FY-2005, our very strong fourth quarter sales enabled us to once again post record sales and earnings for the year. Sales were up slightly from \$12,134,996 to \$12,195,672, and earnings increased from \$2,617,483 (\$0.53 per share) in 2005 to \$2,737,232 (\$0.55 per share) in 2006. Sales for the Guardian Labs division were actually up by 1.2%, but this was offset by a 6.8% decrease in the sales of the Eastern Chemical subsidiary. Much of the increase this year was attributable to increased sales of our Lubrajel® products for medical use, which is a market we have been looking to expand further. While the sales and earnings increases were relatively small, it is important to note that for the first three quarters of 2006 earnings were down \$.05 per share compared with the first three quarters of 2005. Not only were we able to make up this \$.05 per share shortfall in the fourth quarter, but we were able to add on an additional \$0.02 per share as well. It is also important to note that these strong fourth quarter sales have continued into the first three months of FY-2007, giving us a very strong start to the new year.

In addition to the increase in earnings, we also strengthened our balance sheet even further, with working capital increasing by \$701,989 from \$12,281,645 to \$12,983,634, and our current ratio remaining very strong at 7.6 to 1 (as of December 31, 2006). As a result, we were pleased to once again be able to share some of our earnings with our stockholders, continuing the same dividend level that we set in 2005. In addition to the special dividend of \$.25 per share that we paid in June 2006, in January 2007 we also paid a regular year-end dividend of \$.22 per share. We are able to do this while still maintaining strong cash reserves, with more than adequate capital to fund any foreseeable near-term projects.

We believe that our continuing distribution of dividends is one of the reasons our stock price has continued to strengthen over the past year, with the average of our high and low closing prices for all four quarters averaging \$9.10 per share, compared to \$8.32 for 2005. We also believe that many more people are being attracted to companies like ours, whose annual sales and earnings growth have been steady and who have continued to be very profitable. While we are always looking for that extraordinary new product that could mean a significant jump in sales, we also know that it is important to continue to further develop the products we have. For that reason we are continuing to expand our existing product lines with modifications and enhancements, which should enable us to further increase our market share. Our goal is to continue this steady growth while continuing to look for the next exciting product to bring to market.

One of the ways that we are doing that is by getting the assistance of other companies and marketing consultants to help us find new projects and to help us expand our existing product lines into areas that we feel will provide us with more potential for growth. One of those areas of expansion is the medical (non-pharmaceutical) use of our products, including some

products that were developed by us over the years but not marketed immediately because we needed to find a partner before we could proceed further. In order to accelerate this process we retained a marketing consultant last year, who is in the process of finding potential new customers and partners for us for some of these products. She has already received a response back from a major consumer products company interested in discussing possible products with us, and we are optimistic that she will be able to generate a number of new leads that we hope will enable us to expand this business further.

We are also working with Howard Industries, an Ohio-based company that specializes in custom chemical processing, to develop new markets and uses for our Cloronine™ products. They have been working with both the federal government and private industry to find new uses for Cloronine, which is one of our chlorine-based microbicidal agents. Among those other uses they have found a potential use in the food industry that could be very exciting. It involves the disinfection of the buildings in which certain types of foods are grown, which could solve a long-standing problem in that particular industry. They expect to be able to begin marketing the product for that use in the second half of this year. They are also looking into other potential areas of use as well. We have already developed a new gel form of the product for them, and expect to work closely with them to develop new products that we can work together to bring to market.

We are continuing to work with our consultants and marketing partners to develop new products for the personal care industry as well. Last year we introduced Lubrasil™ II DM, which was the second product in our new and improved “Lubrajel® II” line. We are in the process of completing our third product in that line, “Lubrasil II SB”, which we expect to introduce to our customers in the second quarter of this year. Both of these products are micro-emulsions of 20% silicone in a Lubrajel base. They are both substantial improvements upon our original Lubrasil product, which contained only 1% silicone. We are hopeful that this significantly increased silicone level will enable us to expand the market for these products, and provide greater flexibility to many of the major cosmetic companies that use our products.

I am pleased to report that February set a new monthly sales record for us, exceeding \$1.9 million. While a significant portion of those sales was due to a price increase that went into effect on March 1<sup>st</sup> on our pharmaceutical products, sales to date in March have been very strong as well, indicating that we are likely to start off the year with an excellent first quarter. With the help of our new marketing consultant, as well as our joint efforts with new partners like Howard Industries, we are optimistic that this will be another strong year for us.

Sincerely,

UNITED-GUARDIAN, INC.



Ken Globus  
President