



UNITED-GUARDIAN, INC.

Corporate Divisions and Subsidiaries
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EASTERN CHEMICAL

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INTERIM REPORT

(FOURTH QUARTER, 2005)

February 15, 2006

Dear Stockholder:

Since we do not report fourth quarter results separately from the audited year end figures, this Interim Report is being sent out to update our stockholders on events that have taken place since the last stockholder letter. Because the Annual Report to stockholders will be out in about two months, this interim report is intended to be just a brief update. I will go into more depth, and discuss additional projects, in the Annual Report, which is expected to be mailed out in mid-April. Obviously I cannot report any specific financial information until the yearly audit is completed and the figures are released publicly, which this year will probably be in the third week in March.

Based on preliminary figures I can report that 2005 was a very good year for us, with sales exceeding \$12 million for the first time and earnings expected to be up from FY-2004 as well. Even though our marketing partners have indicated to us that sales in the cosmetics market, which is the most important market for our products, were flat last year, we were pleased that we were still able to maintain strong sales levels. We were able to do so despite a slowdown in purchases by one of our large multinational customers, which we hope will improve this year. However, those sales declines were offset by increases in our sales overseas. In fact, for the first time our foreign sales are now slightly greater than our U.S. sales.

Many of you have probably seen ads for Gillette's new "Fusion" razor. Along with the razor they also introduced four new "Fusion" shaving gels, and I am happy to report that our Lubrajel Oil is in all four of those shaving gel formulations. Although the amount of our product in each can is relatively small, with a company the size of Gillette (now part of Proctor & Gamble) and the very aggressive marketing campaign they have begun, this could still mean significant sales if the product line is successful. Many times we don't know the specific products that contain our ingredients, so it is always nice to find out that we are in the product of a major consumer products company. The product is actually very nice, so I hope that those of you now using a competitive product will switch to their new shaving gel to increase our sales! By the way, if you look at the label you will not see "Lubrajel Oil". Ingredients in cosmetic products are listed using their INTERNATIONAL NOMENCLATURE COSMETIC INGREDIENT (or "INCI") name, which for Lubrajel Oil is "Glycerin and Glyceryl Acrylate/Acrylic Acid Copolymer and Propylene Glycol and PVM/MA Copolymer". Now you can see why we use the name "Lubrajel Oil" instead!

We are continuing to work on many new projects, some of which are in their infancy, but all of which I will discuss in detail in the Annual Report. Here is a brief description of some of those projects:

- ❖ **NEW FORM OF LUBRASIL with higher levels of silicone**
- ❖ **SELF-PRESERVING POLYMERIC THICKENER**
- ❖ **NEW SKIN SENSORIAL AGENTS**
- ❖ **MICROEMULSIFIED ANTIMICROBIAL PRODUCT**
- ❖ **NEW PRODUCTS TO EXPAND THE “LUBRAJEL II” line**
- ❖ **POWERFUL CLORONINE-BASED DISINFECTANT for industrial decontamination.**
- ❖ **A NEW GEL FORM OF OUR “CLORONINE” disinfecting agent.**

I will discuss these projects in detail in the Annual Report, and give you an indication of the status of each of them. The idea to develop new skin sensorial agents and the need for a new form of Lubrasil came from the marketing consultant we have been working with to assist us with our marketing efforts. We intend to continue to work with that consultant to find new markets for some of the products not currently being marketed by our existing marketing partners, such as products that would be considered “finished products” (as opposed to cosmetic ingredients), as well as some new medical products.

We are continuing to work closely with our largest marketing partner, International Specialty Products (“ISP”), to expand the market for our products even further, and to work together to find new and unique products for the personal care market. They are continuing to expand our presence in exciting new markets in Asia, in particular mainland China, where our sales have been increasing over the past few years. We are optimistic that, along with the help of our other marketing partners, we will be able to continue to expand the sales of our existing product lines, as well as to bring any newly developed products to market quickly and efficiently. We expect to continue to expand our sales and increase our earnings as we develop additional products and bring them to market in the coming years.

Sincerely,

UNITED-GUARDIAN, INC.



DR. ALFRED R. GLOBUS
Chairman and CEO

NOTE: This stockholders letter contains both historical and “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These statements about the company’s expectations or beliefs concerning future events, such as financial performance, business prospects, and similar matters, are being made in reliance upon the “safe harbor” provisions of that Act. Such statements are subject to a variety of factors that could cause our actual results or performance to differ materially from the anticipated results or performance expressed or implied by such forward-looking statements. For further information about the risks and uncertainties that may affect the company’s business please refer to the company's reports and filings with the Securities and Exchange Commission.