UNITED-GUARDIAN, INC.

Corporate Divisions and Subsidiaries
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EASTERN CHEMICAL

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Second Quarter 2004
Report to Stockholders

September 2, 2004

Dear Stockholder:

I am pleased to report that our earnings for the first six months of 2004 reached a new company record of $.28 per share, even exceeding the record earnings posted for this same period last year. Even though revenue for the period was down slightly compared to last year (due to pipeline filling for some major new product introductions that occurred during the first six months of last year), we were still able to exceed last year's earnings. Part of the reason for this was a decrease in cost of sales from 48% to 43% that was primarily the result of a reduction in the capitalization of overhead for the first half of 2004 as compared to the first half of 2003.

Our balance sheet also continued to strengthen, with working capital increasing from $12,337,361 at the end of the first quarter of this year to $12,961,069 at the end of the second quarter, and our current ratio increasing from 10.2 to 1 to a very healthy 14.3 to 1 during that same period.

We are continuing to work with our marketing partners to develop new products for the personal care market. One of our recently introduced products, our new Orchid Complex line, has experienced increased demand as a result of a new salon product line brought to market recently by Belvedere International, a Canadian company. The new line includes ten products that contain our Orchid Complex, and its inclusion is prominently displayed on their packaging. Not only are we excited about having our ingredient in so many different products, we are also hopeful that other companies will see this new product line and that this will generate additional interest in the product.

We recently had a meeting with ISP (International Specialty Products), our major marketing partner, to discuss how best to continue expand the market for our products. We are currently working with them on several new products, and they have agreed to work closely with us to bring us more customer-generated product ideas for future products.

In the medical area we are have been working with a medical device manufacturer to provide them with a new catheter lubricant that would be highly lubricious, have superior wetting properties, and be able to withstand sterilization using gamma radiation. Since we have a patented process to enable water-based gels to withstand gamma radiation, we were able to provide them with a product that so far has met all of their requirements. They are in the process of submitting a 510-K application with the F.D.A. to market this new product, and expect to be on the market in March, 2005. While we are not anticipating that sales volumes will be very large (since the amount used on each catheter is relatively small), we are hopeful that this new product innovation may lead to additional products for this field.

We have been working with a marketing consulting group on the possibility of marketing two consumer products: our Razoride™ shaving gel and our hand sanitizer with Confetti™ (our proprietary wax-based multi-colored flakes that can carry oil soluble ingredients, such as vitamin E, in water-based gels). They have submitted some initial proposals for several options for marketing these products that would enable us to do some test marketing at very low cost. We will be evaluating these proposals over the next few weeks to decide how best to proceed.

We are still waiting for the compilation of the data from the clinical tests done at Boston University's School of Dental Medicine using Clorpactin, our proprietary chlorine-based antimicrobial agent, to treat gingivitis. We were told initially that we would have these results in August. We are now expecting to have these results within the next month, after which we will decide what the next step should be.

I would like to clarify two issues that were brought up by stockholders pertaining to some figures in our most recent quarterly financial statements. The first involved the increase in inventory and accounts receivable from the first quarter to the second. Neither of these increases was the result of any change in the business, but rather were attributable to the timing of orders. Since we now receive fewer but larger orders instead of the more frequent smaller orders that we used to get before we consolidated our distribution network, we go through a cycle where inventory is gradually built up in anticipation of those large orders. If one of those large orders comes through just after the end of a quarter, it may appear that our inventory levels have increased, while in fact just a few days later much of that inventory might be gone. The only inventory buildup we have experienced is from the normal course of our business, which is now geared towards receiving these less frequent but larger orders. For the same reason, an invoice from one of these large orders may be due just after the close of the quarter, making it appear that our receivables are at risk, when it is really just a timing issue. In fact we have very few uncollectible receivables, much less than the industry average.

The second issue involves the possible concentration of risk in just a few customers, and the possibility that there could be a material impact on sales if one of those customers was lost. In particular, the notes to our financial statements indicate that two of our "customers", which happen to be ISP and Sederma, our French distributor, account for more than 53% or our sales. While it is true that ISP and Sederma are technically our customers, since we do sell to them, their primary functions are as marketers and resellers of our products to the actual end users of the product, which number in the hundreds and include most of the major cosmetic companies. In the unlikely event that we discontinued our relationship with either or both of them, the end users of our products would still be able to obtain them either directly through us or through replacement distributors that we are confident we would be able to put in place quickly. Over the years we have had several major cosmetic raw material suppliers approach us to make us aware that they would be interested in marketing and distributing our products if the opportunity ever arose, so we are confident that we would not experience any significant loss of business or interruption of supply to the end users if we had to find alternate distributors. However, I would also like to point out that our relationship with both ISP and Sederma is excellent, and we are working closely with them to develop new products and new uses for existing products, so there is certainly no reason to believe that our strong relationship with these "customers" will not continue.

Sales for the first two months of our third quarter have been very strong, especially considering that our third quarter is typically our slowest. We anticipate that sales for the third quarter will easily exceed last year's third quarter sales, and that it will be another profitable quarter for us.

Sincerely,

UNITED-GUARDIAN, INC.

Alfred R. Globus

DR. ALFRED R. GLOBUS
Chairman and CEO