



UNITED-GUARDIAN, INC.

Corporate Divisions and Subsidiaries
GUARDIAN LABORATORIES
EASTERN CHEMICAL

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Third Quarter 2003 Report to Stockholders

December 12, 2003

Dear Stockholder:

Our third quarter, which is typically our slowest quarter, has turned out to be another excellent one for us, and has resulted not only in the strongest third quarter in our history, but in record nine-month sales and earnings as well. For the first nine months of the year sales reached \$8,632,494 compared to \$6,796,553 for the same period last year, an increase of 27%. Earnings for the period increased 89% from \$987,389 (\$.20 per share) in 2002 to \$1,871,346 (\$.38 per share) this year. For the three months ended September 30th sales increased from \$2,085,937 in 2002 to \$2,315,417 in 2003, and earnings increased from \$258,190 (\$.05 per share) to \$532,954 (\$.11 per share).

Our balance sheet also continues to grow stronger, with working capital and stockholders' equity each having increased by over \$2 million since the end of last year, and the current ratio having increased from 10.4 to 1 at the end of last year to 19.3 to 1 at the end of the third quarter.

I would like to point out two accounting items that contributed to the increase in earnings we experienced this quarter. First, part of the reduction in our cost of sales was the result of favorable production variances that we have been experiencing this year. Specifically, during the first two quarters our production was even greater than we had projected, which resulted in a lower per unit overhead rate. We decided to take a conservative approach and defer any adjustment to reduce our costs until we were sure that the increased production in the first half of the year would continue. Since production continued strong throughout the third quarter and even into the start of the fourth quarter, we felt that it was now appropriate to modify the overhead rate and adjust the production variance account accordingly, which resulted in a reduction in cost of sales.

The other item that factored into our earnings in the third quarter was the partial reversal of a previously established product disposal reserve. As I have mentioned in the past, we have been in the process of reducing the inventory of our Eastern Chemical division, and we expected to have to dispose of many of the older chemicals that were no longer marketable. We reserved what we thought was a reasonable amount for disposal costs, but the actual

disposal costs to date have been much lower than we had anticipated. Since the disposal of the vast majority of the older chemicals has now been completed, we have adjusted the reserve to reflect the reduced disposal costs.

While these two items helped to increase our earnings even further, they were not a factor in our having attained record sales for the first nine months of the year, and even without these adjustments we still would have had a very strong and profitable quarter.

As a result of the excellent year we have had, the Board of Directors has authorized the issuance of a cash dividend of \$.15 per share for all stockholders of record as of December 15, 2003, to be paid on January 5, 2004. This is a 50% increase over last year's dividend of \$.10 per share. Having taken into account our anticipated capital needs for the foreseeable future, we believe that the earnings projected for this year are more than sufficient to justify this increase in the dividend, and that sharing some of our increased earnings with our stockholders is the appropriate thing to do.

As usual we are many different projects going on at the present time. Here is an update on some of those projects:

- ❖ We have been working closely with our largest marketing partner, International Specialty Products ("ISP"), to continue to develop new products for the personal care market. We are now working on a new natural extract that can be added to skin care products to provide some interesting benefits. While this project is still in the development stage, early results have been promising, and ISP believes there could be an excellent market for such a product. We are hoping to have this ready for introduction at the In-Cosmetics conference in May.
- ❖ We are now working on the second product in our new Lubrajel® II line. This new product will have enhanced lubricating properties that should make it attractive to new customers. We also hope to have this product ready for a May introduction.
- ❖ Our study with Boston University on the potential use of Clorpactin®, our chlorine-based antimicrobial product, for the treatment of gingivitis is continuing. There has been some difficulty in recruiting enough qualified patients, so the study is going to take longer to complete than we had initially anticipated. However, we have been assured that they will be able to find enough qualified patients, and we hope to have results in the next few months. If the results are positive we will then try to find a partner to help us take this project further.
- ❖ We have discontinued our work with a company that was developing a new antimicrobial product that they believed would be effective for the prevention of sexually transmitted diseases. The working relationship between our company and theirs had deteriorated and was no longer productive, so all work on their behalf has been discontinued. This would have been a long-term project that, in our opinion, was at least five years away from completion, and we felt that our limited R&D time would be better spent on other projects.

- ❖ Our customer headquartered in the United Kingdom that had been purchasing a custom version of one of our Lubrajel products for incorporation into a globally marketed personal care product line has now received approval to produce the product in their plant in Thailand, which means that they have now obtained approval to produce the product in three out of their four manufacturing facilities for this product line around the world (the other two approved facilities being in Spain and India). While sales of this product have not increased at the rate we had initially hoped, this latest approval should continue the gradual increase in sales that we have seen for this product.
- ❖ We had two recent meetings that may be of interest for future development work. One was with an Indian businessman with excellent contacts in India who is interested in expanding the sales of our products in that country. We met with him a few weeks ago and provided him with samples and literature to take back to India, where he will be doing some market research. With Indian tariffs on imports being dramatically lowered next year, the Indian market for imports should be expanding significantly, and he sees tremendous potential for some of our products there, such as our Razoride™ shaving gel.
- ❖ We also met recently with a large research company known for its extensive product development work, especially for the government, along with another company for which it had developed products in the past. Both companies have expressed interest in working with Cloroxine™, our chlorine-based disinfectant. Although it is too early to tell whether or not this initial contact will prove to be fruitful, there seems to be genuine interest on their part, and we are excited about the possibility of working with them. Any marketing of this product as a disinfectant would first require regulatory approval by the U.S. Environmental Protection Agency

While it is still too early to be sure how this year will end, based on an excellent October and a strong November we are optimistic that this will be our most profitable year ever.

Sincerely,

UNITED-GUARDIAN, INC.



DR. ALFRED R. GLOBUS
Chairman and CEO

**RESULTS FOR THE THIRD QUARTERS ENDED
SEPTEMBER 30, 2003 and SEPTEMBER 30, 2002***

| | 9 Months Ended September 30, | | 3 Months Ended September 30, | |
|----------------------------|---|--------------------|---|--------------------|
| | <u>2003</u> | <u>2002</u> | <u>2003</u> | <u>2002</u> |
| Revenue | \$ 8,632,494 | \$ 6,796,553 | \$ 2,315,417 | \$ 2,085,937 |
| Costs and expenses | <u>5,847,914</u> | <u>5,424,721</u> | <u>1,531,590</u> | <u>1,737,186</u> |
| Income from operations | 2,784,580 | 1,371,832 | 783,827 | 348,751 |
| Other income | <u>118,766</u> | <u>144,105</u> | <u>39,127</u> | <u>44,987</u> |
| Income before income taxes | 2,903,346 | 1,515,937 | 822,954 | 393,738 |
| Provision for income taxes | <u>1,032,000</u> | <u>528,548</u> | <u>290,000</u> | <u>135,548</u> |
| Net income | <u>\$ 1,871,346</u> | <u>\$ 987,389</u> | <u>\$ 532,954</u> | <u>\$ 258,190</u> |
| Earnings per share | <u>\$ 0.38</u> | <u>\$.20</u> | <u>\$ 0.11</u> | <u>\$.05</u> |

CONSOLIDATED BALANCE SHEETS

| | SEPTEMBER 30, 2003* | DECEMBER 31, 2002** |
|---|--------------------------------|--------------------------------|
| <u>ASSETS</u> | | |
| Current assets: | \$ 12,290,231 | 10,600,754 |
| Property, plant and equipment (less accumulated depreciation): | 1,046,582 | 1,105,570 |
| Other assets: | 863 | 1,156 |
| | ----- | ----- |
| | \$ 13,337,676 | \$ 11,707,480 |
| | ===== | ===== |
| <u>LIABILITIES AND STOCKHOLDERS' EQUITY</u> | | |
| Current liabilities: | \$ 637,437 | 1,022,389 |
| Deferred income taxes | 10,000 | 10,000 |
| Stockholders' equity: | 12,690,239 | 10,675,091 |
| | ----- | ----- |
| | \$ 13,337,676 | \$ 11,707,480 |
| | ===== | ===== |

* Unaudited ** Derived from audited financial statements

NOTE: More detailed financial information can be found in the company's Form 10-QSB for the 3rd quarter of 2003, 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