



UNITED-GUARDIAN, INC.

Corporate Divisions and Subsidiaries
GUARDIAN LABORATORIES
EASTERN CHEMICAL

Corporate Headquarters:
230 MARCUS BLVD.
HAUPPAUGE, NY 11788

Mailing Address:
P.O. BOX 18050
HAUPPAUGE, NY 11788

TEL: (631) 273-0900
FAX: (631) 273-0858
E-MAIL: pgc@u-g.com

Third Quarter 2004 Report to Stockholders

November 29, 2004

Dear Stockholder:

Once again I am very happy to report that sales and earnings reached record levels for both our third quarter and for the nine-month period ended September 30th. This achievement is especially significant because our third quarter is typically our slowest quarter, due to seasonal slowdowns of shipments into Europe during this period. This year sales for the third quarter increased 29% over the same period last year, from \$2,315,417 to \$2,987,383, and earnings increased 31% from \$532,954 to \$699,096. For the first nine months of the year sales increased from \$8,632,494 to \$8,977,454, and earnings increased from \$1,871,346 to \$2,081,260.

While some of the increase in sales may have been the result of the timing of orders (with some shipments going out at the very end of the quarter that could just as easily have ended up in the beginning of the fourth quarter), we also believe that it may be an indication of an increased level of sales of both our core products and some of our newer products. With the help of our marketing partners, in particular International Specialty Products (ISP), we are continuing to work towards expanding the global sales of all of our products.

While the current increase in sales for the year has been due primarily to increases in sales of our core products, in particular our extensive Lubrajel® line of moisturizing and lubricating gels for both cosmetic and medical uses, we are currently working on new products that we expect will accelerate our future growth. One area of research that we are working on now is the development of natural extracts for use in personal care products. While there are many companies currently in this market, we are developing products that will either have some unique properties or lower cost, which will enable us to have a competitive advantage over the products currently on the market. Our first product in this line is nearing completion, and we expect to have it on the market in the first quarter of next year. We are continuing to meet with ISP on a quarterly basis to continue to explore new opportunities, and expect to continue working closely with them to develop new products for this line.

The other exciting product that is currently in the R&D phase is a unique body scrub that uses proprietary technology of ours to allow water soluble ingredients to be used in water-based products without dissolving. We are in the process of filing a patent application for this technology, which will enable us to continue the development process and locate equipment to manufacture the product in commercial quantities. We are anticipating that the first product in this line will be launched in the first half of 2005. We expect to be able to use this same manufacturing process to extend this line by incorporating other water-soluble ingredients. Both we and ISP are very excited about the potential for this new product line, which will be unlike any other product on the market today.

We are still awaiting the results of our clinical study with Boston University testing our Clorpactin® antimicrobial product for use in treating gingivitis. While the clinical portion of the study was complete months ago, as a result of administrative problems at Boston University there was a delay in analyzing and compiling the data. This has set us back several months. We have been told that the problems have now been resolved and that we should be getting the results shortly.

We are currently in discussions with a company that has expressed an interest in buying our Eastern Chemical subsidiary. As you may recall, we had looked into selling this operation several years ago, but the high inventory levels at the time prevented some potential buyers from making an offer. Over the past few years we have reduced Eastern's inventory levels while at the same time trying to minimize as much as possible the adverse effects that a reduced on-hand inventory level could have. As a result, over this period Eastern's sales declined by about 35% from their previous typical annual levels, but have now leveled off and this year have actually increased slightly over last year. As a result, we have once again decided to consider the possibility of selling the operation so we can focus our efforts solely on the growth of the Guardian Laboratories division, which is where all of the company's growth has taken place over the past few years. While we do not have a firm agreement yet, the interested company has sent us a proposal that looks promising. We will be discussing that proposal at our next Board of Directors meeting in early December, and if the Board authorizes it we will enter into further discussions with the hope of having an agreement in place by the end of the year.

I would like to take a moment to make all of our stockholders aware of the death of one of our Directors, Benjamin Wm. Mehlman, a man respected and loved by all of us at United-Guardian. Judge Mehlman had been corporate counsel for the company from the 1940's into the 1980's, and had been a Director of the company since 1964. He practiced law in Manhattan and for many years was the only judge in a small community on Long Island. He was a very intelligent man with a sharp and inquiring mind, who questioned everything but always had the best interests of the company at heart. Throughout the many years he was with us he never failed to provide us with excellent counsel. Even more important, he was a loving father and one of the nicest people that any of us ever had the privilege of knowing. He is survived by three wonderful daughters. It was an honor to know him, and his warmth and counsel will be missed by all of us.

As all of you are aware, on September 9th our Board of Directors declared a special cash dividend of \$.25 per share to all stockholders of record as of the close of business on September 24, 2004. The dividend was paid on October 8th. We did this because we felt that the company had more than adequate cash reserves to fund all of our immediate and near future needs, and that some of the excess cash should be returned to our stockholders. While our first priority will always be to explore new ways to grow the business, and to make sure that we retain adequate cash reserves to do so, we continue to believe that stockholders should participate in our ongoing success through a generous dividend policy. In light of the favorable tax treatment that dividends currently receive, we decided that returning a portion of our excess earnings to our stockholders seemed to make a lot of sense right now. Based on the feedback we received, we believe that our stockholders generally agreed with this decision. While we cannot make any commitment as to future special cash dividends, if earnings and revenue continue to grow we are hopeful that this will not be a one time event. Assuming that sales and earnings continue at the pace of the first three quarters we are anticipating another record year for both. With our continued R&D effort we expect to bring some exciting new products to market next year that should enable us to continue the growth we have been experienced over the past few years.

Sincerely,

UNITED-GUARDIAN, INC.

A handwritten signature in cursive script, appearing to read "Alfred R. Globus".

DR. ALFRED R. GLOBUS
Chairman and CEO

**RESULTS FOR THE THIRD QUARTERS ENDED
SEPTEMBER 30, 2004 and SEPTEMBER 30, 2003***

	9 Months Ended September 30,		3 Months Ended September 30,	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Revenue	\$ 8,977,454	\$ 8,632,494	\$ 2,987,383	\$ 2,315,417
Costs and expenses	<u>5,899,444</u>	<u>5,847,914</u>	<u>1,953,142</u>	<u>1,531,590</u>
Income from operations	3,078,010	2,784,580	1,034,241	783,827
Other income	<u>160,250</u>	<u>118,766</u>	<u>53,855</u>	<u>39,127</u>
Income before income taxes	3,238,260	2,903,346	1,088,096	822,954
Provision for income taxes	<u>1,157,000</u>	<u>1,032,000</u>	<u>389,000</u>	<u>290,000</u>
Net income	<u>\$ 2,081,260</u>	<u>\$ 1,871,346</u>	<u>699,096</u>	<u>\$ 532,954</u>
Earnings per share	<u>\$.42</u>	<u>\$.38</u>	<u>\$.14</u>	<u>\$ 0.11</u>

CONSOLIDATED BALANCE SHEETS

	SEPTEMBER 30, 2004*	DECEMBER 31, 2003**
<u>ASSETS</u>		
Current assets:	\$ 14,324,724	\$ 12,997,928
Property, plant and equipment (less accumulated depreciation):	997,482	1,026,251
Other assets:	700	765
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	\$ 15,322,906	\$ 14,024,944
	=====	=====
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current liabilities:	\$ 1,867,795	\$ 1,398,426
Deferred income taxes	10,000	10,000
Stockholders' equity:	13,445,111	12,616,518
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	\$ 15,322,906	\$ 14,024,944
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* 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