



# 2004 ANNUAL REPORT

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

April 20, 2005

Dear Stockholder,

This past year was another very strong one for the company, with sales and earnings equaling the record levels of FY-2003. While we are always striving to increase our sales, other factors sometimes come into play, such as the timing of orders or pipeline fills for new product introductions, that can shift sales from one quarter (or year) into another. Both of these were factors in 2004, with pipeline fills in 2003 that did not recur in 2004, and with some of our customers requesting that we not ship orders at the end of the year in order to keep their own inventories low. As a result, some sales that would normally have occurred in December were shifted instead to the beginning of 2005 and will be reflected in our first quarter 2005 sales.

Despite these two factors, we were still able to achieve the record level of sales and earnings of the previous year. Sales for the year were \$11,123,475 versus \$11,157,423 for FY-2003, and earnings were \$2,475,058 (\$.50 per share) versus \$2,471,154 (\$.50 per share) for FY-2003. Our balance sheet has continued to strengthen, with working capital up 3% and the current ratio essentially unchanged at a very strong 9.2 to 1. As a result, during 2004 we were also able to declare both an \$.18 per share regular dividend and a \$.25 per share special dividend, which is a return of approximately 6% at today's share price.

Even though the year was very strong, we are continuing to work with our marketing products to develop new products and to expand the uses and market penetration of our current products. While our personal care product lines, in particular our Lubrajel® line of water-based moisturizing and lubricating gels, continue to generate most of our revenue, we are continuing to work on new product development in other areas as well, including medical and industrial products. The following is a status report on some of our current projects:

❖ **LUBRAJEL "FREE"**: A new line of Lubrajel products that is free of parabens, probably the most commonly used cosmetic preservatives. A major cosmetic company may be bringing out new products that do not use these preservatives, so in anticipation of other companies following suit we have proceeded with the development of paraben-free versions of as many of our products as possible. If the demand for paraben-free products does increase, as we think it will, we will be ready with a complete line of paraben-free products to fill the needs of the marketplace.

❖ **ORCHID COMPLEX**: An improvement to our original "Oil of Orchids" product line, with reduced costs and greater stability. It is based on a proprietary method of extracting oil from orchids, which is then combined with other ingredients to make a unique product that has excellent moisturizing and emolliency properties. This product has already found its way into a broad product line of a Canadian personal care products company, and is being actively promoted by our marketing partners.

❖ **COFFEE COMPLEX**: A natural coffee extract that is intended for use in skin care products to deliver natural caffeine. This product had been suggested by one of our marketing partners over a year ago and we have been actively working on its development since then; however, based on updated market information, we are not sure whether the current market potential is sufficient to justify the start-up costs. We will be discussing this with our other marketing partners over the next few weeks and will make a decision as to whether or not we should continue with the project.

❖ **SUCROSCRUB:** An exfoliant made from sugar that has been treated using our proprietary manufacturing process to make it temporarily insoluble in water. It can then be incorporated into water-based creams, lotions and bath gels without dissolving, and when rubbed onto the skin it slowly dissolves as it mechanically exfoliates dead skin cells. Because of the large investment in equipment that is going to be necessary to manufacture this product, we are currently working with some outside sources to find a more cost effective manufacturing method. If we can do this we believe that this product may have excellent market potential. We have already filed a patent application on the method of making this product.

❖ **LUBRAJEL II:** This product line was developed to recapture some of the market share we had lost over the years to some of our competitors. Sales of the first product in this line, LUBRAJEL II XD, have been gradually increasing since its introduction in 2003. We expect to expand this product line over the next few years, introducing new formulations that have enhanced properties over competitive products.

❖ **CLORONINE:** A powerful disinfectant, germicide, and sanitizer for disinfecting medical and surgical instruments and equipment. We are currently working with a new potential customer that is exploring possible use of this product by the government as a decontamination agent.

We are also looking into the possibility of retaining a consultant to work with us to determine the market potential for some of our other product lines, such as our industrial products, which had been given lower priority by us as we expanded our personal care product lines. We believe that there may be some new opportunities for us in some of the products we have developed over the years that we have not aggressively marketed. We are hopeful that with some outside assistance we may be able to expand our product offerings even further.

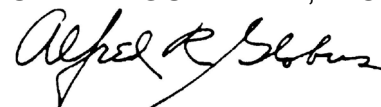
As can be seen from our balance sheet, because of our continued profitability we are continuing to build our cash position, even with the issuance of both a regular and special dividend last year. While we are still open to the possibility of acquiring a company or product line if the opportunity presents itself, we are not actively looking to do this at the present time. Instead, we hope to use some of our capital to expand our R&D work and fund any capital investments that may be necessary for new product introductions. We will continue to review our cash position as the year progresses, and may once again issue a special dividend if we feel the time is right.

I would like to remind all of our stockholders that, as a cost saving measure, we no longer automatically mail out quarterly stockholders letters. Anyone who would like to continue to receive those by mail should contact us at 800-645-5566. However, if you have access to the internet you can retrieve all stockholders letters, press releases, and SEC filings directly from our web site at <http://www.u-g.com>, or you can receive them automatically as soon as they are released by sending a request to [pgc@u-g.com](mailto:pgc@u-g.com) to be added to our e-mail list.

As I mentioned previously, as a result of the shifting of some December orders into January we expected the first quarter of FY-2005 to be very strong, and as of now it looks like we will have record revenue for the first quarter, giving us an excellent start to the new year. We will continue to work closely with our marketing partners to develop new products for the skin care market, and will be looking to expand our medical and industrial product offerings as well. We are committed to growing both our sales and earnings, and hope to be able to continue to share our success with our stockholders.

Sincerely,

UNITED-GUARDIAN, INC.



ALFRED R. GLOBUS