



UNITED-GUARDIAN, INC.

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INTERIM REPORT

(FOURTH QUARTER, 2004)

February 16, 2005

Dear Stockholder:

Once again we are sending out this interim report to bridge the gap between the third quarter stockholders report, which was sent out the end of November, and the annual report, which won't be out until the middle of April. Although we cannot report any definitive financial results until our audit is completed, I would like to update our stockholders on recent events and the general business outlook.

As a result of an unusually slow December, our sales for the fourth quarter were lower than we had expected, so right now we are estimating that sales for the year will be very close to last year's sales figures. One of the reasons for the lag in December sales was the reluctance of many of our customers to place orders for December delivery, in order to reduce their year-end inventory levels. As a result, some of the shipments that would normally have been made in December were instead shipped in January. Another result of this, however, is that sales for January, 2005 were at close to record levels, and sales for February have started out strong as well. So while the shifting of some of these deliveries did adversely affect our fourth quarter sales, the offset to that has been an excellent start to the new year.

We are continuing our efforts to expand the sales of our core Lubrajel product line, not only by continuing our marketing efforts in our current markets, but also by working with our marketing partners to expand these core product sales to emerging and developing markets, such as Eastern Europe and China. We are also actively working on several new projects, some of which were begun last year, which we expect to bring to market shortly. The following is an update on our most active R&D projects, which I will discuss in more detail in the annual report to stockholders in April:

- ❖ **COFFEE COMPLEX:** This is a natural coffee extract that will be marketed to the personal care industry for the delivery of natural caffeine, primarily for use in skin care products. We will soon begin sampling this product, and expect to be able provide commercial quantities in the second quarter of this year. We are also working closely with one of our marketing partners to evaluate the market potential for this and decide how best to proceed.

- ❖ **SUCROSCRUB:** This product is an exfoliant made from sugar that is treated with a special polymer to make it temporarily insoluble in water. It can then be incorporated into water-based creams, lotions and bath gels without dissolving. When rubbed onto the skin it slowly dissolves as it mechanically exfoliates dead skin cells. We have just completed the R&D work on this project, and have produced an initial laboratory quantity for further developmental testing. We expect to be able to begin commercial production in the second half of this year.
- ❖ **LUBRAJEL "FREE":** This is a new line of Lubrajel products that is free of parabens, probably the most commonly used cosmetic preservatives. Some well known cosmetic companies have decided to bring out new products that do not use of these preservatives. Since we believe that this may start a trend away from this preservative, we have decided to develop paraben-free versions of all of our major products so that if the demand for paraben-free products does increase, we will be ready with a complete line of paraben-free products to fill the needs of the marketplace.
- ❖ **LUBRAJEL II:** This product line was developed to recapture some of the market share that we had lost over the years to some of our competitors. The first product in this line, LUBRAJEL II XD, was developed to be a drop-in replacement for one of those products, and is currently being actively promoted by our marketing partners. We expect to expand this product line over the next few years, introducing new formulations that have enhanced properties over competitive products. Since our R&D focus right now is on Coffee Complex, SucroScub, and the other new Lubrajel products mentioned above, it is not expected that additions to this line will be completed in 2005.
- ❖ **CLORONINE:** Cloronine is a powerful disinfectant, germicide, and sanitizer for disinfecting medical and surgical instruments and equipment. We are currently working with a new potential customer for this product that is exploring possible use by the government as a decontamination agent.

We finally received the results of our clinical trial at Boston University testing the suitability of using Clorpactin®, our proprietary antimicrobial product, for the treatment of gingivitis. Unfortunately, the results were not as good as we had hoped. One of the problems that was reported was the chlorine taste, which we knew from our previous study had been a major complaint. For this last study we had included a mint additive that we hoped would sufficiently mask the chlorine taste, but apparently it was not sufficient to overcome the negative reactions to the chlorine taste and odor. Since the success of this test was going to be a critical factor in our ability to find a partner to work with us on this project, we don't feel that it is worthwhile proceeding any further on this project.

Even though our fourth quarter sales were disappointing, we still expect to show a very healthy profit for the year, and based on this expectation we were pleased to be able to share some of our profits with our stockholders in the form of two dividends that we paid out in 2004: the \$.15 per share dividend paid in January and the \$.25 per share Special Dividend paid in October. This gave a total dividend payout of \$.40 per share during 2004, which is a return of approximately 5.6% (based on a \$7.11 per share average stock price during 2004). We are very proud of this and are optimistic that we will be able to continue to provide our stockholders with an excellent return on their investment.

We are very pleased with the start to the new year, and are very excited about the new products that are currently in various stages of development. We are hopeful that some of these new products will begin to generate revenue in 2005, and that we will continue to expand the market penetration of our existing product lines as well.

Sincerely,

UNITED-GUARDIAN, INC.

A handwritten signature in black ink, appearing to read "Alfred R. Globus", is written over a thin red horizontal line.

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.