



2003 ANNUAL REPORT

to the Stockholders of
UNITED-GUARDIAN, INC.

April 15, 2004

Dear Stockholder,

I am very pleased to report that this past year has been another record one for us, with earnings up 74% and sales up 23% over last year. The earnings for the year were \$2,471,154 (\$.50 per share), up from \$1,421,505 (\$.29 per share) in 2002. Revenue was \$11,157,423, up from \$9,091,416 in 2002. As a result, the Board of Directors, at its December meeting, increased the annual dividend 50% from \$.10 per share to \$.15 per share, while retaining more than adequate capital to fund any foreseeable cash requirements that we anticipate in the near future.

The increase in sales and earnings last year was the result of several factors, including an overall improvement in the global economy. We believe that the most important factors for us were the introduction of new products by some of our existing customers, some of which had been holding off on introducing new products until the economy improved; increased demand from some of our current customers; and continued expansion of the market for our products, particularly in many emerging markets, such as China. International Specialty Products ("ISP"), our largest marketing partner, had a significant increase in its purchases from us last year as they continued the excellent effort they have been making on our behalf to expand the market share for our products. We also saw a significant increase in business from Sederma, our marketing partner in France, continuing to expand what is our second largest market (after the United States).

With the significant increase in earnings also comes a further strengthening of our balance sheet. As of December 31st (compared to December 31, 2002) our total assets increased from \$11,700,000 to \$14,000,000; working capital increased from \$9,578,365 to \$11,599,502; stockholders' equity increased from \$10,675,091 to 12,616,518; and our current ratio is a very healthy 9.3 to 1 (down slightly from 10.4 to 1 in the previous year due to the year-end accrual of the increased dividend).

While the new products that we introduced last Spring, Plexajel[®] ASC and Lubrajel[®] II XD have not yet produced significant sales, we have begun to see an increase in demand for the Lubrajel II XD, and are optimistic that we will continue to see sales of that product increase. Plexajel, which was developed to enable customers to incorporate low pH ingredients, such as alpha hydroxy acids, into stable, clear gel products, has not produced significant sales to date because of two technical factors that restrict its use as a personal care ingredient. As a result, we are working with our marketing partners to find other potential applications for that product, since it does have an excellent skin feel, and our marketing partner in the U.K. has already been successful with one of its customers in using this product in a new formulation of theirs. We also intend to continue our efforts to further refine this product to better enable it to accomplish its initial purpose of low pH stability.

Another product that we released recently, our "Orchid Complex", is now finding its way into some new product lines, one of which is being developed to showcase this product. 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 but has a lower cost than our previous "Oil of Orchids" product line. Recent activity indicates that this product should start generating more significant revenue soon.

We have also just begun working on a new paraben-free version of Lubrajel. Parabens are commonly used cosmetic preservatives that some people feel should no longer be used in skin care products. While many experts do not believe there is a real problem, we believe that some cosmetic companies may want to bring out new paraben-free products, and we want to be ready if this expected demand materializes. We are currently developing some new formulations with alternative preservatives that could fill this new potential market demand.

We have also just completed work on “Klensoft II”, a successor to our original Klensoft product. Klensoft is a surfactant (a “surface active agent”, such as a soap or detergent) that can be used in shampoos, body washes, makeup removers, and other personal care formulations. The primary customer for Klensoft for many years has been in Taiwan, and over the past few years there have been new customers for the product in the United Kingdom, Australia, France and Korea. The new product will have all of the benefits of our existing Klensoft but has been reformulated for better stability at high temperatures, which we hope will enable us to increase its sales.

As a result of the continued build-up of our cash position we have looked into the possibility of the acquisition a company or product line, but to date have not found any opportunities that we felt were worth pursuing. While it would be worth pursuing if we could find a product line that would be synergistic with our own, we will not risk the steady growth that we anticipate by getting involved with an acquisition that is not 100% compatible with our product lines and operations. So for the present time we intend to maintain our current strategy of growing from within, while continuing to be open to other growth opportunities if and when they present themselves.

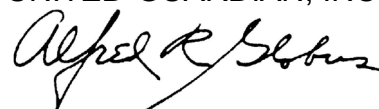
Our clinical trial in conjunction with the Boston University School of Dental Medicine to test the effectiveness of Clorpactin[®], our powerful chlorine-based antimicrobial, for the treatment of gingivitis, is continuing, and they have now enrolled the proposed number of participants. It took longer than expected to find people who qualified for the study, so the completion of this project has taken longer than we first anticipated. We expect final results by the end of the second quarter, at which time we will determine whether, or how, we should continue further. If the results are positive, we expect to begin looking for a partner to take this project to the next stage, which would be more extensive clinical trials, possibly comparing our product directly with competitive products currently on the market.

I would like to take this opportunity to remind all of our stockholders that as a cost saving measure we no longer mail quarterly stockholders letters to all of our stockholders. Instead, we offer three methods of receiving this information: first, all stockholders’ letters and press releases are immediately posted to our web site (<http://www.u-q.com>) for viewing or downloading; second, we maintain an e-mail list of those who would like this information sent directly to them electronically as soon as it is released; and three, for those without access to e-mail or the internet we will mail out a paper copy if you notify us of that preference. If you want to be placed on our e-mail list please send your e-mail address to pgc@u-q.com and all future press releases, stockholders letters, and SEC filings will be e-mailed to you. If you want to have a paper copy mailed to you then either drop us a note with your name and address or call us at 800-645-5566 and we will make sure that all future stockholders letters are mailed to you.

During a year when many other companies were struggling to come back from the economic decline we have seen over the past few years, we have been able to achieve a year of record sales and earnings. We are continuing to work closely with our marketing partners to develop new products for the personal care market that will fill current and future demands for new and innovative products. We are confident that we will continue to grow the company in a way that will give our shareholders the return on their investment that they expected when they bought our stock, while preserving the strong financial position that we have built up over the past few years. We continue to be optimistic about the future growth of the company, and we hope that you will stay with us and participate in that growth.

Sincerely,

UNITED-GUARDIAN, INC.



ALFRED R. GLOBUS