



UNITED-GUARDIAN, INC.

Corporate Divisions and Subsidiaries
GUARDIAN LABORATORIES
EASTERN CHEMICAL

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Second Quarter 2003 Report to Stockholders

September 1, 2003

Dear Stockholder:

Once again I am pleased to report that our quarterly sales and earnings for the second quarter of FY-2003 have set a new record for the company, showing substantial increases over the same period last year. As a result, earnings for the first six months of the year have almost equaled our earnings for all of FY-2002.

Sales for the quarter increased from \$2,328,168 in 2002 to \$3,099,544 this year, an increase of 33%. Net income for the period increased from \$291,287 (\$.06 per share) last year to \$634,963 (\$.13 per share) this year, an increase of 118%!

For the six month period ended June 30th sales increased from \$4,710,616 last year to \$6,317,077 this year, an increase of 34%. Net income for that same period was up from \$729,199 (\$.15 per share) last year to \$1,338,392 (\$.27 per share) this year, an increase of 84% and only \$.02 per share short of the company's earnings for all of last year.

Based on feedback we have received from our marketing partners, we believe that much of the increase in sales we have experienced so far this year has been the result of additional new product launches from companies that had been holding back on releasing new products into a global economy that still had not recovered from the economic downturn we have been experiencing over the past couple of years. Since it is too soon for our recent product launches to contribute significantly to sales, all of the increase in sales that we have experienced year to date has come from our core product lines, particularly our Lubrajel[®] line of water-based moisturizing gels. This year has also seen new orders from some large customers who had excess inventory during 2002 and began to order again this year.

As I mentioned in my last letter, during the first half of this year we launched two new product lines, Lubrajel[®] II and Plexajel[™]. The first product in the Lubrajel II line is Lubrajel II XD, which was introduced this past spring and was developed to be a drop-in replacement for one of Lubrajel's primary competitors. It has somewhat different properties than our regular Lubrajel line, and we hope this will allow us access to new customers and markets that might have been unable to use our existing Lubrajel products.

The first product in our Plexajel line, Plexajel ASC ("Acid Stable Complex") is a unique addition to our line of water-based gels in that it allows for the incorporation of low pH ingredients, such

as alpha hydroxy acids, into a clear water-based gel while maintaining its viscosity and clarity. We believe that there is no other product like it on the market right now.

We have already begun to see some small orders for these new products, and anticipate that sales of both product lines will increase as potential customers have more time to formulate with them. We are also working on new additions for both of these product lines.

Here is an update on some of the other projects on which we have been working:

- ❖ We had previously entered into a consulting arrangement with Kline & Company, a well known global business consulting company, to help us locate products or product lines that might be available for licensing or acquisition. While they did provide us with some leads, to date we have not yet located a product line that we feel is worth pursuing further. While our initial work with them is finished, we now have a list of potential companies that might, in the future, have products available, and we will continue to follow up with some of those companies and pursue any possible leads that might come up.
- ❖ Our study on the potential use of Clorpactin, our chlorine-based antimicrobial product, for the treatment of gingivitis has now commenced. We should have some initial results in the next few months. We have already had some preliminary discussions with a dental products company that might be interested in pursuing this project with us if the results of this study are positive.
- ❖ We are continuing to work with a company that has developed a new antimicrobial product that has the potential to be a very effective agent for the prevention of sexually transmitted diseases. We have developed a carrier for their product that they are extremely happy with and has worked better for them than any other product they have tried. They are now in preliminary discussions with the Food and Drug Administration in preparation for clinical trials on the new product.

While we have been very encouraged by our results for the first half of the year, it is still too early know whether this will continue for the rest of the year. Sales for the first two months of our third quarter have been slower than for the first half of the year, but our third quarter is typically our slowest quarter, so we will have to wait for September results to come in before we know whether or not our third quarter will be ahead of last year. Regardless of the third quarter results we are optimistic that our sales will continue to grow, especially as the new Lubrajel II and Plexajel lines begin to grow and impact our sales more significantly next year.

Sincerely,

UNITED-GUARDIAN, INC.



DR. ALFRED R. GLOBUS
Chairman and CEO

**RESULTS FOR THE SIX AND THREE MONTHS ENDED
JUNE 30, 2003 and JUNE 30, 2002**

	<u>6 Months Ended June 30,</u>		<u>3 Months Ended June 30,</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Revenue	\$ 6,317,077	\$ 4,710,616	\$ 3,099,544	\$ 2,328,168
Costs and expenses	<u>4,316,324</u>	<u>3,687,535</u>	<u>2,154,479</u>	<u>1,933,296</u>
Income from operations	2,000,753	1,023,081	945,065	394,872
Other income:	<u>79,639</u>	<u>99,118</u>	<u>39,898</u>	<u>49,415</u>
Income before income taxes	2,080,392	1,122,199	984,963	444,287
Provision for income taxes	<u>742,000</u>	<u>393,000</u>	<u>350,000</u>	<u>153,000</u>
Net income	\$ <u>1,338,392</u>	\$ <u>729,199</u>	\$ <u>634,963</u>	\$ <u>291,287</u>
Earnings per share (Basic and Diluted)	\$ <u>0.27</u>	\$ <u>0.15</u>	\$ <u>0.13</u>	\$ <u>0.06</u>

CONSOLIDATED BALANCE SHEETS

	JUNE 30, 2003	DECEMBER 31, 2002
	----- (UNAUDITED)	----- (DERIVED FROM AUDITED FINANCIAL STATEMENTS)
<u>ASSETS</u>		
Current assets:	\$ 11,646,361	\$ 10,600,754
Property, plant and equipment (less accumulated depreciation):	3,975,004	3,880,660
Other assets:	961	1,156
	----- \$ 12,734,132 =====	----- \$ 11,707,480 =====
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current liabilities:	\$ 595,636	\$ 1,022,389
Deferred income taxes	10,000	10,000
Stockholders' equity:	12,128,496	10,675,091
	----- \$ 12,734,132 =====	----- \$ 11,707,480 =====

NOTE: More detailed financial information can be found in the company's Form 10-QSB for the 2nd 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