



UNITED-GUARDIAN, INC.

Corporate Divisions and Subsidiaries
GUARDIAN LABORATORIES
EASTERN CHEMICAL

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Six Months Report

August 23, 2002

Dear Stockholder:

As we expected, the first six months of this year have not been as strong as the same period last year, primarily due to the weak economic conditions in the United States, Europe, and most of the other countries around the world in which our core products are marketed. For many companies this global economic weakness has resulted in the posting of losses where there had previously been gains. For other companies, the goal was to try to remain as profitable as possible at a time when many other companies were struggling to survive, and hope that they would be positioned well for growth when economic conditions improved.

I am happy to report that we were in the latter category, and while our revenue and earnings did decline for the first six months of the year, we were still very profitable and have continued to become even stronger financially. Our sales for the first six months of the year declined approximately 13% compared to the same period last year, from \$5,423,800 in 2001 to \$4,710,616 this year. Net earnings for the period declined from \$1,079,378 (\$.22 per share) in 2001 to \$729,199 (\$.15 per share) this year, a drop of 32%.

Part of the reason for the higher percentage drop in earnings than revenue was the fact that overhead this year was spread out over a smaller sales base than last year. However, in addition to that, the first six months of this year, as opposed to last, also had higher than usual expenses in certain areas due to the timing of some of those expenses (such as annual bonuses, advertising, and legal fees). This resulted in a disproportionate impact on the second quarter results.

On the other hand, as a result of our continued profitability, our financial strength has continued to increase, with our current ratio increasing from 13 to 1 at the end of the same period last year to 18 to 1 now. Because of this we remain extremely strong financially, and well positioned to fund our internal growth as our needs require.

Since my last letter we have continued our efforts to expand the marketing of our products, not only by continuing to work closely with our marketing partners to develop new products and marketing campaigns, but also to find new uses for some of our existing products. This year has already seen the introduction of our new "Orchid Complex" product line, which is based on oil

extracted from orchids combined with other proprietary ingredients to make a new product that has excellent moisturizing and emolliency properties. Our marketing partners are in the process of bringing this new product to their customers.

We are also very close to concluding our development work for the next generation of Lubrajel[®], our proprietary line of water-based moisturizing gels. Lubrajel is already used extensively worldwide, and has a reputation for quality that is unsurpassed. This next generation product will enable customers to use ingredients that until now were not compatible with Lubrajel, such as alpha hydroxy acids (“AHA”s). We believe that this new addition to the Lubrajel family should enable us to expand the market penetration for this product line even further. Since there is typically a 9-12 month lead time to develop new skin care products, we do not expect this product to generate much in the way of income this year, but we are hopeful that it will be a significant contributor to revenue next year.

We have also just initiated work on a new Lubrajel line that will compete more directly with some of Lubrajel’s competitors, allowing us entrée to companies that previously had not chosen to use Lubrajel. We believe that this new line may enable us to increase our market share even further, and allow easier entry into some of the foreign markets, such as Japan, where it has sometimes been difficult to market some of the existing Lubrajel products.

In addition to these products we hope to bring additional personal care products to market to fill needs brought to us by our marketing partners. We recently met with one of our largest marketing partners, International Specialty Products (“ISP”), which brought to us several ideas for either developing new products to fill needs that they see in the marketplace, or to bring to market some products that we had developed previously but had not marketed to their full potential in the past. ISP and some of our other marketing partners have tended to concentrate their marketing efforts primarily on the expansion of sales of our core product lines, such as Lubrajel, or our newer products, such as Confetti[®] Dermal Delivery Flakes. We have a large catalog of products that have not been marketed to their full potential, and are now working with our marketing partners to initiate new efforts to market some of these other products.

Our ongoing project with Boston University’s School of Dental Medicine for the use of Clorpactin[®], our proprietary antimicrobial product, in the treatment of periodontal disease is continuing, with a second round of clinical trials expected to begin in a few months. We have been working to make this product stable at room temperature (it now has to be kept refrigerated), and we believe we have found a way to do so. Before we proceed with the next clinical study we would like to manufacture product using this new method, since the ability to keep this product stable at room temperature would significantly increase its marketability and open up new areas of use.

We are continuing to work on our project with a major personal care products company headquartered in the United Kingdom that has incorporated a custom version of one of our Lubrajel products into a globally marketed product line of theirs. This project has taken much longer than we originally expected due to packaging and marketing issues that needed to be resolved by this customer. While we have begun to sell them small quantities of product, the more significant sales will not begin until they have approved the new product for use in all of their plants and they introduce the our product into all of the lines in which it is going to be used. I am hesitant to give any timing projections on this due to the delays we have experienced to date,

but we are still optimistic that this project will go forward, and that when it does, it will provide us with significant additional revenue. This same company has now expressed interest in another product line of ours, and we have provided them with samples for them to evaluate.

While we had decided not to go any further with plans to market our Razoride shaving gel product, we recently met with some individuals who are extremely enthusiastic about the product and are interested in pursuing it further. They intend to start with an internet marketing campaign, using some of the packaging that we had originally used in our own consumer marketing effort. We are hopeful that this effort may finally bring this excellent product to a broader market.

Once again this year we did not put out a first quarter stockholders letter because our Annual Report came out so close to the end of the first quarter. For that reason, in addition to the second quarter results I have set forth below the results for the first quarter as well.

While it would have been nice to be the exceptional company that was able to increase its revenue during this ongoing economic downturn, for now we will have to be satisfied to be a company whose varied product line and financial strength has enabled it to remain profitable at a time when many other companies are laying off workers and struggling just to survive. We remain very confident in our ability to resume our growth as the economy improves and more of our new products come to market.

Sincerely,

UNITED-GUARDIAN, INC.



DR. ALFRED R. GLOBUS
Chairman and CEO

**RESULTS FOR THE FIRST QUARTER ENDED
MARCH 31, 2002 and MARCH 31, 2001**

	<u>3 Months Ended March 31,</u>	
	<u>2002</u>	<u>2001</u>
Revenue:	\$ 2,382,448	\$ 2,829,845
Costs and expenses:	<u>1,754,239</u>	<u>1,879,713</u>
Earnings from operations:	628,209	950,132
Other income:	<u>49,703</u>	<u>65,984</u>
Earnings before income taxes:	677,912	1,016,116
Provision for income taxes:	<u>240,000</u>	<u>380,000</u>
Net Earnings:	\$ <u>437,912</u>	\$ <u>636,116</u>
Earnings per share (Basic and Diluted):	\$ <u>.09</u>	\$ <u>.13</u>

**RESULTS FOR THE SECOND QUARTER ENDED
JUNE 30, 2002 and JUNE 30, 2001**

	<u>6 Months Ended June 30,</u>		<u>3 Months Ended June 30,</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Revenue:	\$4,710,616	\$5,423,800	\$2,328,168	\$ 2,593,955
Costs and expenses:	<u>3,687,535</u>	<u>3,833,390</u>	<u>1,933,296</u>	<u>1,953,677</u>
Earnings from operations:	1,023,081	1,590,410	394,872	640,278
Other income (expense):	<u>99,118</u>	<u>131,708</u>	<u>49,415</u>	<u>65,724</u>
Earnings before income taxes:	1,122,199	1,722,118	444,287	706,002
Provision for income taxes:	<u>393,000</u>	<u>642,740</u>	<u>153,000</u>	<u>262,740</u>
Net earnings:	<u>\$ 729,199</u>	<u>\$1,079,378</u>	<u>\$ 291,287</u>	<u>\$ 443,262</u>
Earnings per share (Basic and Diluted):	<u>\$ 0.15</u>	<u>\$ 0.22</u>	<u>\$ 0.06</u>	<u>\$ 0.09</u>

CONSOLIDATED BALANCE SHEETS

	<u>JUNE 30,</u> <u>2002</u>	<u>DECEMBER 31,</u> <u>2001</u>
	(UNAUDITED)	(DERIVED FROM AUDITED FINANCIAL STATEMENTS)
ASSETS:		
Current assets:	9,868,825	9,546,990
Property, plant and equipment:	1,151,888	1,198,413
Other assets:	<u>9,927</u>	<u>36,150</u>
	\$ 11,030,640	\$ 10,781,553
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Current liabilities:	547,284	1,045,076
Deferred income taxes	10,000	10,000
Stockholders' equity:	<u>10,473,356</u>	<u>9,726,477</u>
	\$ 11,030,640	\$ 10,781,553