



# UNITED-GUARDIAN, INC.

Corporate Divisions and Subsidiaries  
GUARDIAN LABORATORIES  
EASTERN CHEMICAL

Corporate Headquarters:  
230 MARCUS BLVD.  
HAUPPAUGE, NY 11788

Mailing Address:  
P.O. BOX 18050  
HAUPPAUGE, NY 11788

TEL: (631) 273-0900  
FAX: (631) 273-0858  
E-MAIL: [pgc@u-g.com](mailto:pgc@u-g.com)

## Nine Months Report

December 12, 2002

Dear Stockholder:

As I mentioned in my last letter, while our company has been weathering the economic downturn of the past couple of years better than many companies, we still have seen our share of sales decreases as our customers' inventory needs decline. As a result, sales for the third quarter of the year were down 5% from \$2,201,249 in 2001 to \$2,085,937 this year, with earnings down from \$434,456 to \$258,190. For the nine month period sales decreased 11% from \$7,625,049 last year to \$6,796,553 this year, and earnings for the period decreased from \$1,513,834 in 2001 to \$987,389 in 2002.

While we certainly would have preferred to be able to maintain the steady increases in sales and earnings we had experienced for many years leading up to the recent global economic downturn, we also know that while many other companies have been laying off workers and showing losses where there used to be profits, we have managed not only to maintain our work force intact but also continue to be very profitable.

As a result of that profitability we have been able to continue to increase our financial strength, as is indicated by a current ratio of 14.5 to 1 versus 9.1 to 1 at the end of last year. While we are continuing to explore the possibility of using some of our current assets to acquire an existing product line to add to our growing line, our major focus is to continue to expand our internal research and development efforts to develop new products that would supplement our current lines.

Two of those new product lines are expected to be launched in the first quarter of next year. One of them is a water-based gel that remains stable upon the addition of low pH ingredients while maintaining its viscosity and clarity. Based on feedback from our marketing partners worldwide, we do not believe that there is another product on the market that can do this. We are still finalizing the trade name for this product, which has very different chemistry from our current Lubrajel<sup>®</sup> line of water-based gels. This is a product that many of our customers have expressed an interest in, and we believe that it will fill a void in the market that currently exists for a clear gel that can carry ingredients such as the alpha and beta hydroxy acids that are so popular in skin products right now. If this product receives the market acceptance that we believe it will, we anticipate that it will begin generating sales by the end of next year.

The other new product line that we are launching is our new Lubrajel II line, which we expect to be an extension to our current Lubrajel line as opposed to a replacement. We will initially be launching three new products in this line. These products have some characteristics that our current Lubrajel line does not have. A major cosmetic manufacturer has already expressed interest in replacing one of our competitor's products with ours, and we are optimistic that these new products will enable us to increase our market share for products like this.

Another project being funded internally is the testing of Clorpactin, our chlorine-based antimicrobial product, for the treatment of gingivitis and, if successful, periodontal disease. This is being done in conjunction with Boston University's School of Dental Medicine, and we have just notified them that we are ready to proceed with our second preliminary clinical trial. This second trial expands the number of patients being tested, and is using a modified product that we believe will have better patient compliance than either our regular Clorpactin product or any competitive products currently used for this purpose. We expect this second trial to begin in the next three months and be completed by mid-2003. If the results are good we will then initiate our efforts to locate a partner who can work with us to further develop this product and ultimately bring it to market after the appropriate regulatory approvals are received. As a result of our work on this project we have developed a new method of producing and packaging the product that eliminates the need to keep it refrigerated. We believe that this development alone will open up new marketing opportunities for us in the future.

Our work with a U.S. based company that has developed a unique antimicrobial agent for use in the prevention of sexually transmitted diseases is producing excellent results, and we recently received word that the product we developed for them for use as a carrier for their product has passed some critical stability tests. They have informed us that our product has given them better results than any product that they have tried to date, and we are optimistic that they will proceed further using our product. While this project is several years away from receiving the necessary regulatory approvals, it does hold tremendous potential for us if they are successful.

The recent introduction of our new "Orchid Complex" product line has been completed, and we are hopeful that this second generation product will bring in new customers due to its excellent moisturizing and emolliency properties and lower price. This product is based on a proprietary method of extracting oil from orchids, which is then combined with other ingredients to make a very unique product that we believe will generate significant interest as our marketing partners introduce the new product to their customers.

We are continuing to work with our customer in the United Kingdom that is in the process of incorporating a custom version of one of our Lubrajel products into a globally marketed personal care product line. They recently placed orders for product to be shipped to the second of four production facilities around the world that are expected to eventually be using this product, and are in the process of obtaining the necessary regulatory approvals to go forward in the other facilities. While sales in connection with this project have been slow to develop, we have every reason to believe that this project will in time generate significant revenue for the company.

We continue to believe that with the new products that we will be introducing, as well as the ongoing research projects in which we are involved, that we are in an excellent position to increase sales and earnings over the next few years, which should be stimulated even further once the world economies begin to improve. Even though at this point it is clear that we are not going to have as profitable a year as we had last year, sales for the fourth quarter to date have been very encouraging, and we expect to start the new year with a strong fourth quarter behind us.

Sincerely,



UNITED-GUARDIAN, INC.  
DR. ALFRED R. GLOBUS  
Chairman and CEO

**UNITED-GUARDIAN, INC.**  
**CONSOLIDATED STATEMENTS OF EARNINGS**  
**(UNAUDITED)**

	NINE MONTHS ENDED SEPTEMBER 30,		THREE MONTHS MONTH ENDED SEPTEMBER 30,	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Revenue:				
Net sales	\$ 6,796,553	\$ 7,625,049	\$ 2,085,937	\$ 2,201,249
	-----	-----	-----	-----
Costs and expenses:				
Cost of sales	3,726,051	3,638,997	1,174,265	1,017,445
Selling, general and administrative	1,698,670	1,747,294	562,921	535,456
	-----	-----	-----	-----
	5,424,721	5,386,291	1,737,186	1,552,901
	-----	-----	-----	-----
Earnings from operations	1,371,832	2,238,758	348,751	648,348
Other income (expense):				
Interest expense	-	(38)	-	(1)
Investment income	144,075	186,713	44,987	54,968
Gain (loss) on sale of assets	79	(8,859)	-	(8,859)
Other	(49)	-	-	-
	-----	-----	-----	-----
Earnings before income taxes	1,515,937	2,416,574	393,738	694,456
Provision for income taxes	528,548	902,740	135,548	260,000
	-----	-----	-----	-----
Net earnings	\$ 987,389	\$ 1,513,834	\$ 258,190	\$ 434,456
	=====	=====	=====	=====

	NINE MONTHS ENDED SEPTEMBER 30,		THREE MONTHS MONTH ENDED SEPTEMBER 30,	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Earnings per common share (basic and diluted)	\$ 0.20	\$ 0.31	\$ 0.05	\$ 0.09
	=====	=====	=====	=====
Basic weighted average shares	4,877,478	4,867,465	4,881,139	4,870,029
	=====	=====	=====	=====
Diluted weighted average shares	4,889,870	4,887,602	4,888,794	4,884,338
	=====	=====	=====	=====

**UNITED-GUARDIAN, INC.  
CONSOLIDATED BALANCE SHEETS**

	SEPTEMBER 30, <u>2002</u> (UNAUDITED)	DECEMBER 31, <u>2001</u> (DERIVED FROM AUDITED FINANCIAL STATEMENTS)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,789,940	\$ 1,599,857
Temporary investments	4,033,100	4,365,114
Marketable securities	870,254	944,348
Accounts receivable, net of allowance for doubtful accounts of \$62,964 at September 30, 2002 and \$63,100, at December 31, 2001, respectively	779,770	844,388
Inventories	1,204,885	1,185,535
Prepaid expenses and other current assets	317,139	327,924
Deferred income taxes	307,445	279,824
	-----	-----
Total current assets	10,302,533	9,546,990
	-----	-----
Property, plant and equipment:		
Land	69,000	69,000
Factory equipment and fixtures	2,720,085	2,698,088
Building and improvements	2,034,304	2,019,136
Waste disposal plant	133,532	133,532
	-----	-----
	4,956,921	4,919,756
Less: Accumulated depreciation	3,828,312	3,721,343
	-----	-----
	1,128,609	1,198,413
	-----	-----

	SEPTEMBER 30, <u>2002</u>	DECEMBER 31, <u>2001</u>
Other assets:		
Processes and patents, net of accumulated amortization of \$981,243 and \$946,647 at September 30, 2002 and December 31, 2001, respectively	554	35,150
Other	700	1,000
	-----	-----
	1,254	36,150
	-----	-----
	\$ 11,432,396	\$ 10,781,553
	=====	=====

## LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Dividends payable	\$ -	\$ 487,044
Accounts payable	340,663	213,728
Accrued expenses	372,145	344,304
	-----	-----
Total current liabilities	712,808	1,045,076
	-----	-----
Deferred income taxes	10,000	10,000
	-----	-----
Stockholders' equity:		
Common stock \$.10 par value, authorized, 10,000,000 shares; issued, 4,943,339 and 4,932,639 shares, respectively; outstanding 4,881,139 and 4,870,439 shares, respectively	494,334	493,264
Capital in excess of par value	3,527,423	3,492,518
Accumulated other comprehensive loss	(64,277)	(24,024)
Retained earnings	7,111,738	6,124,349
Treasury stock, at cost; 62,200 shares	(359,630)	(359,630)
	-----	-----
Total stockholders' equity	10,709,588	9,726,477
	-----	-----
	\$ 11,432,396	\$ 10,781,553
	=====	=====

Additional financial information can be found in the company's Form 10-QSB for the 3<sup>rd</sup> quarter of 2002, 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/10-QSB-Q3-2002.pdf>