



# UNITED-GUARDIAN, INC.

Corporate Divisions and Subsidiaries  
GUARDIAN LABORATORIES  
EASTERN CHEMICAL

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## Nine Months Report

December 10, 2001

Dear Stockholder:

I am pleased to report that our third quarter sales and earnings were very strong compared to last year, especially considering the fact that our third quarter is typically our slowest. Despite the difficult economic conditions both here and abroad, we have been able to maintain our sales and earnings for the nine month period at virtually the same level as last year's record levels, at a time when many companies have been experiencing severe financial impacts as a result of the slowing economy.

Our third quarter earnings increased by 20 percent over last year, rising from \$361,313 (\$0.07 per share) in 2000 to \$434,456 ( \$0.09 per share) in 2001. Revenue for the quarter increased by 13 percent, from \$1,941,977 in 2000 to \$2,201,249 in 2001.

For the nine-month period ended September 30<sup>th</sup>, earnings declined 4% from \$1,579,687 (\$0.32 per share) in 2000 to \$1,513,834 (\$0.31 per share) in 2001, and revenue was down 2% from \$7,795,787 in 2000 to \$7,625,049 in 2001. However, the strong third quarter turnaround has almost brought earnings back to the record level of 2000 after trailing at the end of the second quarter by \$0.03 per share.

Our balance sheet continues to grow stronger, with working capital increasing from \$8,090,411 as of June 30, 2001 to \$8,542,125 as of September 30, 2001. Our current ratio is now almost 16 to 1, compared to 13 to 1 at the end of the first six months of the year.

We are continuing to work on many projects that we expect will enable us to resume the revenue and earnings increases that we have experienced over the past few years. Our most important R&D project right now involves the development of a new form of Lubrajel<sup>®</sup> that can be used in formulations in which it is currently not compatible. Lubrajel is our proprietary line of water-based moisturizing and lubricating gels that are used extensively throughout the world by most of the major cosmetic companies, as well as many companies that are marketing medical products. If we are successful in this development project we should be able to significantly increase our sales of this product line.

The preliminary clinical test on the use of Clorpactin<sup>®</sup>, our proprietary chlorine-based antimicrobial product, in the prevention and treatment of gingivitis has now been completed. These tests were conducted by the School of Dental Medicine of Boston University, which is in the process of compiling the results. We expect to have their conclusions shortly. The preliminary indications are that the product did have some efficacy in reducing the gingivitis. The extent of its effectiveness we will not know until we get their final results. If those results are positive, we hope to expand the trial to more patients and possibly to other more serious periodontal diseases. We will also be looking for a partner to work with us on this project, since the marketing of this product will require the approval of the F.D.A., and the costs involved with conducting the necessary clinical trials will probably be too high for us to incur alone.

We are continuing to work with two companies interested in marketing a product based on Phosphocholate<sup>™</sup>, which is a mouth moisturizer we developed several years ago for use by cancer patients. The company that we developed this product for discontinued its use for reasons other than the quality or effectiveness of the product, and since that time we have been trying to interest new companies in the product. The two companies that we are now talking to have shown serious interest in the product, and we hope to begin sales to one or both of them within the next few months.

We are still awaiting final word from a major personal care products company in the United Kingdom that plans to incorporate Lubrajel Fluid, a customized form of Lubrajel, into a major product line of theirs. We are currently making relatively small shipments of product to them pending their acceptance of a revised formulation. They are in the process of resolving some internal packaging and production issues that have delayed the switch to the new product. Once those problems are solved we expect shipments to them to increase significantly.

As I have mentioned in previous letters, as a result of the ongoing increase in our cash position we have been looking into the possibility of acquiring either a company or a product line. In these uncertain economic times we believe that we have to be very careful about how we go about this, so as not to jeopardize our current financial strength. We have decided to explore initially the possibility of acquiring a product line as opposed to a company. We believe that the most cost effective way of doing this is to place ads in widely circulated industry trade journals to see if we can locate a company that is interested in divesting itself of a successful product or product line that may not fit in with its current marketing plans. The first of these ads came out a few weeks ago. We also intend to place other ads indicating that we have products that need outside marketing partners, with the hope of attracting new customers for some of our lesser known products. We anticipate running these ads for several months to see if this is a viable way of expanding our product line and marketing partners

While many other companies have experienced tremendous financial downturns over the past few months we have managed to maintain our revenue at a level equivalent to our record levels of last year, which I believe is no small achievement in today's economic climate. Based on some recent feedback from our major marketing partner in Europe, we expect our customers both here and abroad to be more conservative in their purchases in the near term, which will probably mean that our fourth quarter sales will probably not be as strong as last year. We are confident, however, that as the economies in the U.S. and abroad start to come back that we will see a gradual increase in our core product sales, which we expect to be supplemented by new business as some of our ongoing projects begin to produce revenue.

Sincerely,

UNITED-GUARDIAN, INC.



DR. ALFRED R. GLOBUS  
Chairman and CEO

**RESULTS FOR THE THIRD QUARTER ENDED  
SEPTEMBER 30, 2001 and SEPTEMBER 30, 2000**

	<u>9 Months Ended</u> <u>September 30,</u>		<u>3 Months Ended</u> <u>September 30,</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
Revenue	\$7,625,049	\$ 7,795,787	\$ 2,201,249	\$ 1,941,977
Costs and expenses	<u>5,386,291</u>	<u>5,430,466</u>	<u>1,552,901</u>	<u>1,429,576</u>
Earnings from operations	2,238,758	2,365,321	648,348	512,401
Other income:	<u>177,816</u>	<u>154,366</u>	<u>46,108</u>	<u>63,412</u>
Earnings before income taxes	2,416,574	2,519,687	694,456	575,813
Provision for income taxes	<u>902,740</u>	<u>940,000</u>	<u>260,000</u>	<u>214,500</u>
Net earnings	<u>\$ 1,513,834</u>	<u>\$ 1,579,687</u>	<u>\$ 434,456</u>	<u>\$ 361,313</u>
Earnings per share (Basic and Diluted)	<u>\$ 0.31</u>	<u>\$ .32</u>	<u>\$ 0.09</u>	<u>\$ .07</u>

CONSOLIDATED BALANCE SHEETS

	SEPTEMBER 30, 2001	DECEMBER 31, 2000
ASSETS	(UNAUDITED)	(DERIVED FROM AUDITED FINANCIAL STATEMENTS)
<b>Current assets:</b>		
Cash and cash equivalents	\$ 998,907	\$ 2,226,812
Temporary investments	4,803,100	2,736,886
Marketable securities	828,742	270,924
Accounts receivable, net of allowance for doubtful accounts	760,310	801,070
Inventories	1,259,026	1,464,564
Prepaid expenses and other current assets	225,617	169,605
Deferred income taxes	244,264	224,688
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Total current assets	9,119,966	7,894,549
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<b>Property, plant and equipment:</b>		
Land	69,000	69,000
Factory equipment and fixtures	2,680,424	2,613,203
Building and improvements	2,019,137	1,985,342
Waste disposal plant	133,532	133,532
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	4,902,093	4,801,077
Less: Accumulated depreciation	3,687,140	3,533,542
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	1,214,953	1,267,535
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<b>Other assets:</b>		
Processes and patents, net of accumulated amortization	48,111	86,995
Note receivable - officer	-	147,316
Other	1,000	1,000
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	49,111	235,311
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	\$ 10,384,030	\$ 9,397,395
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<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Dividends payable	\$ -	\$ 486,114
Accounts payable	217,587	178,035
Accrued expenses	360,254	262,120
Taxes payable	-	79,450
Current portion of long-term debt	-	6,036
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Total current liabilities	577,841	1,011,755
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Deferred income taxes	10,000	10,000
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Stockholders' equity:		
Common stock	493,264	490,114
Capital in excess of par value	3,464,518	3,373,417
Accumulated other comprehensive loss	(36,180)	(3,274)
Retained earnings	6,234,217	4,720,383
Treasury stock, at cost	(359,630)	(205,000)
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Total stockholders' equity	9,796,189	8,375,640
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	\$ 10,384,030	\$ 9,397,395
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Additional financial information can be found in the company's Form 10-QSB for the 3<sup>rd</sup> quarter of 2001, which is available upon request or can be viewed and/or downloaded from the following internet location:

<http://www.sec.gov/Archives/edgar/data/101295/000010129501500013/q3-2001.pdf>