



# 2002 ANNUAL REPORT

to the Stockholders of  
**UNITED-GUARDIAN, INC.**

April 15, 2003

Dear Stockholder,

As we expected, this past fiscal year was a year of somewhat lower sales and earnings due to the continuing weak economies both at home and abroad. It was also, however, another profitable year for us, one that despite the economic conditions enabled us to continue to increase our financial strength and stability. Based on reports from our marketing partners, much of the decline in sales was due to a reluctance on the part of many personal care product manufacturers to launch new products in this economic climate. However, as I will discuss in more detail later in this letter, that situation may have changed based on the substantial increase in sales we have experienced over the past few months.

For fiscal year 2002, consolidated revenue was down 5% from \$9,583,682 in 2001 to \$9,091,416 in 2002. Net income after taxes for the year decreased from \$1,891,010 (\$.39 per share) in 2001 to \$1,421,505 (\$.29 per share) in 2002, a decrease of \$469,505 or 25%. Most of the decline in sales was the result of decreased sales of our Eastern Chemical subsidiary, which had a revenue decrease of 20% vs. the Guardian Laboratories division decrease of 3%. While we believe that the decline in Guardian's sales was primarily attributable to economic conditions, the decline in Eastern's sales may also be the result of some loss of business due to a lowering of inventory levels by Eastern, which resulted in an inability to supply certain products from stock as we had in the past. This is an expected result of our continuing efforts to significantly reduce Eastern's inventory levels to make the company more marketable in the event we decide to sell it in the future.

As a result of our continuing profitability, our working capital has increased from \$8,501,914 at the end of 2001 to \$9,578,365 at the end of 2002, and our current ratio has increased from 9.1 to 1 to 10.4 to 1. The continuing strengthening of our balance sheet further increases our ability to take advantage of possible expansion opportunities. While we have decided for the time being not to look into expanding by way of a company acquisition due to the potential risks involved, as a result of our strong cash position we have decided to make additional efforts to acquire products or product lines that would fit into our current distribution channels. To assist us in this effort we have retained the services of Kline & Company, a well known global business consulting company, to help us locate products that would be synergistic with our own product line and could easily be added to the list of products currently marketed by our global marketing partners. Kline's efforts began in March, and we hope to receive potential leads from them over the next few weeks.

In addition to our efforts to acquire products from outside the company, we are continuing our own research and development efforts, and I am pleased to report that we are in the process of introducing two exciting new product lines. The first, our new LUBRAJEL<sup>®</sup> II line, is a line of water-based gels that will extend our current Lubrajel line by providing drop-in replacement capability for one of Lubrajel's main competitors, as well as make it easier to use our products in Japan. The line will also have some different characteristics from the products in our original Lubrajel line. Since sales of our current line of Lubrajel products are continuing to increase, this new line is expected to supplement, not replace, the existing line. So far the reaction from our marketing partners to the first product in this line, the LUBRAJEL II XD, has been very positive, and we expect to add more products to this line in the coming months.

The other new product launch is a product line to be marketed under the new tradename PLEXAJEL<sup>™</sup>. The first product in this line, which will be launched in April, is PLEXAJEL ASC (for "Acid Stable Complex"). This product is a clear, water-based gel that remains stable upon the addition of low pH ingredients while maintaining its viscosity and clarity. We do not believe that there is another product on the market that has these characteristics. Many of our customers have expressed an interest in finding a product like this, and we believe that it will fill a void in the market for a clear, water-based gel that can carry low pH ingredients such as alpha and beta hydroxy acids, which are so popular in skin products right now.

Since it takes time for customers to do the necessary formulating, stability, and test marketing work with any new raw material, we do not expect these new products to generate any significant revenue this year, but we are optimistic that they will begin to have an impact in FY-2004.

Another new product that we released recently, our new "Orchid Complex" product line, is also getting a very good reception from our largest distributor, ISP. This product 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. We are hopeful that this second generation product will bring in new customers that might have found the previous product line too costly to use.

We are continuing to work on many other ongoing projects. Here is an update on the progress being made on some of the key projects:

- We are about to begin our second preliminary clinical trial with Boston University's School of Dental Medicine for the testing of Clorpactin, our chlorine-based antimicrobial product, for the treatment of gingivitis. This second trial expands the number of patients being tested, and will be 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 second quarter of 2003 and be completed sometime in the third quarter. If the results are good we will then initiate efforts to locate a partner to work with us to continue this project. 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 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. While this project is several years away from receiving the necessary regulatory approvals, it does hold tremendous potential for us if they are successful.
- We are continuing to work with a major personal care products company in the United Kingdom that is in the process of incorporating a new Lubrajel formulation into one of their globally marketed personal care product lines. They are in the process of obtaining the approvals they need to use this product in their various manufacturing facilities around the world. While progress on this project has been slow, it stills holds excellent potential for future sales.

As I mentioned previously, since December we have noticed a significant increase in sales that has continued through the first quarter of 2003. Some feedback that we have received indicates that this is a result of some new product launches by customers that had been holding back because of the global economic conditions. As a result of this sales increase we are confident that our first quarter will very likely set a new record for the company, with sales exceeding \$3 million for the first time in our history.

Although we are disappointed that our sales declined in 2002, at a time when many other companies are showing losses or struggling to survive we continue to remain profitable and extremely strong. As a result of our new product launches this year we are encouraged by the potential for revenue increases over the next few years, as some of these products find their way into new product launches. While it is too early to tell whether the significant increase in sales we have experienced over the past few months is the beginning of a trend that will continue for the rest of the year, it is still a very positive sign and an exciting way to start the new year.

Sincerely,

UNITED-GUARDIAN, INC.



ALFRED R. GLOBUS  
Chairman and CEO