



# UNITED-GUARDIAN, INC.

Corporate Divisions and Subsidiaries

GUARDIAN LABORATORIES  
EASTERN CHEMICAL

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April 15, 2002

Dear Stockholder,

I am pleased to report that this past fiscal year has been another profitable one for us, with the company posting after-tax earnings of \$1,891,010 (\$.39 per share) on sales of \$9,583,682. While sales and earnings were down slightly from the record levels of 2001, considering the difficult economic conditions during the past fiscal year we are pleased to have been able to maintain sales and earnings at levels very close to the previous record levels, and certainly better than many other companies that struggled to show any profit at all in 2001.

The positive results this year have also continued to strengthen our balance sheet, with assets up from \$9.4 million to over \$10.8 million, while liabilities have stayed virtually the same at just over \$1 million. As a result, our current ratio has increased from 7.8 to 1 to 9.1 to 1, which we believe is exceptional for a company our size. Not only does this financial strength give us protection against future economic uncertainties, but also gives us tremendous flexibility if we were to actively proceed with the acquisition of a company or product line at some future date.

While we have been exploring the possibility of an acquisition over the past year, considering the economic conditions recently we have not actively worked towards this goal. We all know from what happened with Enron that not all aspects of a company's operations may be readily apparent, despite one's best efforts at due diligence. We feel strongly that if we were to make a mistake and proceed with the wrong acquisition, that the strong financial position we have worked so hard to build could be jeopardized. For that reason, we are working to find additional ways to grow the company from within, knowing that if we do that we will have much more control over our own future. While this may not provide the immediate surge of revenue that could come from the right acquisition, in the long run this may be the better path for us to take. Right now, however, we are leaving our options open and will proceed in the way that offers the best opportunity to increase revenue while protecting our company's strong financial position.

In regard to expanding our current marketing opportunities, we will be having detailed discussions with each of our marketing partners over the next few weeks. In the fourth quarter of last year we had indications that many companies were determined to keep their year-end inventories low, which resulted in slower sales for us in the last quarter of 2001. Consistent with this was a resurgence of orders in January, indicating that some of those customers were once again bringing in inventory. While it is too early to tell whether or not there is a significant change yet in the global economic conditions that hurt so many companies last year, we are cautiously optimistic that sales will pick up for us as the economy improves in 2002. While sales for the first quarter of 2002 seem to be under

our record levels of 2001, preliminary figures show that our first quarter will still be a profitable one and will pave the way for improved sales over the course of the year.

As usual we have many interesting projects going on right now, some with long term and some with short term potential impact. One of our most exciting new projects, and the one with the most potential to impact sales starting in the second half of this year, involves our development of a new type of Lubrajel<sup>®</sup> that will enable that product line to reach even more customers and be used in an expanded line of products. As most of you probably know, Lubrajel is a line of water-based moisturizing and lubricating gels used worldwide by most of the major cosmetic companies as well as many manufacturers of medical devices. It is our most important product line, and has a reputation for quality that is second to none. Over the years our marketing partners have brought to our attention that Lubrajel, like other similar water-based gel products, cannot be used in certain personal care products because of incompatibilities with certain formulations. The new Lubrajel line is expected to overcome many of these problems, enabling the product to be used in a much greater variety of skin care and hair care products, especially those containing some of the most popular ingredients, such as alpha-hydroxy acids. It will also have significantly enhanced moisturizing properties compared to the current Lubrajel line. While we expect the new line to supplement rather than replace the existing Lubrajel line, we believe that many new opportunities to expand the market for our products will now open up to us. While the real impact of this product line will probably not be felt until next year, since even after introduction it takes many months for new formulations to come to market, we believe that if this product performs as well as we think it will sales in FY-2003 may be impacted considerably by the introduction of this new product line.

The other ongoing project that we hope will soon begin to generate additional revenues is our project with a major consumer products company headquartered in the United Kingdom that has been working for several years with a new Lubrajel variation that we call Lubrajel Fluid. The product is to be used as a replacement for an ingredient in an existing product line that is marketed worldwide. I have mentioned this ongoing project in many of my letters over the past few years, and there have been many delays due to (a) the need to test many different formulations to determine the best one for their application, and (b) issues that came up related to production and packaging. These issues have delayed the introduction of the product far beyond what we had originally anticipated. Based on their latest reports they have overcome the production issue, and are nearing the end of their search for the ideal packaging material. They expect to complete their latest testing in May, which should give them the information they need to make a final decision on the packaging. It is our hope that within a short time thereafter they will begin to purchase commercial quantities of the product. While we realize that this project has dragged on for a long time, we hope that you will understand that delays of this type are common with major new product introductions, and that all we can do at this point is to wait for them to make their decisions and then proceed without additional delays.

Last year we initiated a research project in conjunction with the Boston University School of Dental Medicine to test the effectiveness of Clorpactin<sup>®</sup>, our powerful chlorine-based antimicrobial, for the treatment of gingivitis. In February we received the final test results, and they were very positive, showing greater effectiveness than a commonly prescribed alternative treatment that has significant drawbacks that our product doesn't have. The researchers at Boston University were very positive about the results, and felt that we should continue with further clinical studies. We are currently in the process of looking for methods to mask the chlorine taste to make it more palatable, and are awaiting a proposal from Boston University to perform additional clinical testing, this time with more patients, which will give us a better idea as to how to proceed further with this project. While we believe that there is a very good chance that our product will prove to be very effective, we still have to perform a cost/benefit analysis and compare our product to other treatments that are currently

used to prevent or treat gingivitis to determine whether our product shows enough of an improvement to justify proceeding to the next step, which would be to locate a partner to work with us. We will also be looking at expanding the potential uses of the product to treat other more serious periodontal diseases.

We also are working with a company that has developed a unique antimicrobial product that it intends to market worldwide for the prevention of sexually transmitted diseases. Unlike other products being tested, which attempt to destroy the virus, this one works by preventing viruses, including H.I.V., from penetrating healthy cells. Based on our extensive experience working with water-based gel products they have asked for our assistance in developing an appropriate gel carrier for the product. While this is a long-term project and regulatory approvals will be needed before any product can be marketed, it is an exciting project that holds tremendous potential, and we are hoping to continue working with them to find a suitable carrier for their product.

I had also mentioned in some previous stockholder letters that we were working with two companies interested in resuming the marketing of Phosphocholate™, a mouth moisturizer we developed several years ago for use by cancer patients. The company for which we developed this product 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. One of the two companies has now decided to proceed with the project, pending their evaluation of it in their filling equipment. They have recently asked us to ship a small quantity of product for this purpose, and we are hopeful that if these tests go well they will soon begin to purchase commercial quantities of the product, allowing us to resume the sales of a product that provided significant income a few years back.

Despite the economic conditions that prevailed during 2001 we have been able to maintain our revenue and earnings very close to what they were in our record year in 2000. While all of us would have been happier had we been able to maintain the steady increases in earnings that we had experienced over the past few years, we believe that even maintaining last year's levels has been an accomplishment this year. We will continue to work to increase both our revenues and earnings by listening to our customers and striving to provide them with new products to expand their lines. We are confident that we have the experience to do that, and look forward to bringing to fruition some of the exciting projects that I have discussed above.

Sincerely,

UNITED-GUARDIAN, INC.

A handwritten signature in black ink, appearing to read "Alfred R. Globus". The signature is fluid and cursive, written over a white background.

ALFRED R. GLOBUS  
Chairman and CEO