



# UNITED-GUARDIAN, INC.

Corporate Divisions and Subsidiaries

GUARDIAN LABORATORIES

EASTERN CHEMICAL

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## INTERIM REPORT

(FOURTH QUARTER, 2001)

February 14, 2002

Dear Stockholder:

The purpose of this Interim Report is to keep you updated on events that have taken place since the Nine Month Report was issued on December 10<sup>th</sup> of last year. Our next full report will be the Annual Report to Stockholders that will be mailed in April.

As I had mentioned in that previous letter, in the last quarter of 2001 we had indications that orders has slowed somewhat, and at least one of our major marketing partners had been directed by its parent company to cut back on orders in order to keep its end of year inventory levels down. We believe that many companies were being conservative in their buying patterns due to the uncertain economic climate.

Based on sales figures for the fourth quarter of 2001, it appears that our forecast was correct, and that there was a decline in orders during the last few months of 2001 that will affect our earnings for the year. However, based on preliminary financial results, we anticipate that FY-2001 will still be one of our most profitable years ever, with sales and earnings coming in just slightly lower than the prior fiscal year. Considering the state of the economy in the second half of 2001, and the number of companies that were severely impacted by the economic conditions, we believe that even coming close to last year's earnings is a significant accomplishment.

I am also pleased to report that orders in the beginning of 2002 have picked up considerably compared to the last few months of 2001, and January was a very strong month. We are hopeful that this will continue, especially if the economy strengthens as many expect it to this year.

While I will update you on the status of all of our projects in the Annual Report to Stockholders that will be mailed out in April, I would like to touch on two exciting research and development projects going on right now. One offers the possibility of generating new sales by the end of this year, and the other has the potential for even greater sales a few years down the road, if our development work is successful.

The first project is our development of the next generation of Lubrajel®, our line of proprietary water-based moisturizers and lubricants. If we are successful, this new gel technology will enable the product to be used in a broader range of consumer products,

opening up significant new markets for us. We know that there is a tremendous need for the type of product we are developing, and that if we are successful we can greatly expand the uses for Lubrajel. We are currently testing several prototype formulations, with one in particular showing excellent potential. We are hopeful that the product development will be far enough along that we will be able to introduce the product to our marketing partners in April at the up-coming "In-Cosmetics" show in London, and that we might be able to begin full scale marketing of the product by the end of the year.

The other project is for the development of a water-based gel carrier for an exciting new antimicrobial product that originated in Israel and has been in development and testing for several years. The company that created the product has recently requested our assistance in developing a carrier for their active ingredient, one that would make it more stable and enable it to be used more effectively. The product has several potential uses, including the treatment of ocular and topical skin infections and the prevention of sexually transmitted diseases. While this product is still in the early stages of development, and drug approvals are going to be needed before it can be marketed, we believe that the potential market is considerable, and are very excited about being asked to participate in this project.

We also just received word that the preliminary clinical tests of Clorpactin®, our proprietary antimicrobial product, for the treatment of gingivitis, have been completed, and that the results indicated that our product showed a significant reduction in gingival inflammation compared to a placebo. We will be receiving a full report from Boston University shortly, after which we will decide how to proceed further.

While we are disappointed that sales slipped somewhat at the end of the year, we also understand that the economic climate in the second half of 2001 made it very difficult for companies like ours to maintain their sales levels. We are still very pleased to have been able to maintain our profitability, and I am confident that our financial results for FY-2001 will still be very strong.

Sincerely,

UNITED-GUARDIAN, INC.

A handwritten signature in black ink, appearing to read "Alfred R. Globus". The signature is fluid and cursive, with the first name being the most prominent.

DR. ALFRED R. GLOBUS  
Chairman and CEO