



UNITED-GUARDIAN, INC.

Corporate Divisions and Subsidiaries

GUARDIAN LABORATORIES
EASTERN CHEMICAL

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INTERIM REPORT

(FOURTH QUARTER, 2002)

February 20, 2003

Dear Stockholder:

As we have been doing for the past few years, I am writing this interim letter to keep you up to date on the activities of the company since the Nine Month report was issued on December 12th. This is intended to be a brief update on just a few of the ongoing projects, since the more extensive Annual Report will be out in less than two months from now.

While we are expecting sales and earnings to be down for 2002 compared to 2001 due to the global economic slump, we were very encouraged to see that sales for the fourth quarter of 2002 were up slightly versus the fourth quarter of 2001, and we anticipate that earnings for that period will be up as well. In particular we noticed that sales were increasing steadily as the year ended. That has continued into 2003, and what is very encouraging is that January was a record month for us, with sales reaching approximately \$1.5 million, by far our largest month ever and about double the average monthly sales for 2002. One obvious concern was whether the unusually high sales for January would mean lower-than-average sales for February, but I am pleased to report that we are projecting that February sales will continue to be very strong and will probably reach if not exceed \$1 million. Based on the year-to-date sales we are cautiously optimistic that the first quarter of 2003 will set new sales and earnings records for the company.

Much of the sales increase we have experienced over the past few months has come from our largest marketing partner, International Specialty Products, and has represented sales of our core products, a sign that the personal care market may be emerging from the recession of the past year or two. We will be meeting with them at the end of this month to discuss the increase in volume that we have experienced, and I hope to be able to report some of that information in the Annual Report to give our stockholders a better idea of how the market for our products is doing right now.

I am happy to report that at the beginning of February we introduced the first product in our new "Lubrajel II" line. This product line was designed to be an extension of our Lubrajel line, and the first product in this line, Lubrajel II XD, is intended to be a drop-in replacement for one of Lubrajel's competitors. This product has some characteristics that our current

Lubrajel line doesn't, but will supplement rather than replace that line. The new line will be especially attractive to those customers whose products are intended to be marketed in Japan. While the current Lubrajel formulations generally can be marketed in Japan after overcoming some regulatory hurdles, the new product will be able to be marketed in Japan more easily. We intend to add more products to this line, all of which will not only have the same acceptability in Japan but also have some marketing advantages over our competitors' product lines.

At the end of March we will be making a second product line introduction under the new trade name "Plexajel". This is a product that has been in development for several years and has been requested by many of our marketing partners. The first product in this line will be "Plexajel ASC" for "Acid Stable Complex". This unique product allows ingredients of low pH, such as alpha and beta hydroxy acids, to be incorporated into a clear, water-based gel with excellent stability. We know of no other product on the market like it. This new line will be introduced to our marketing partners at the end of March at the In-Cosmetics show, a major international cosmetics exhibition. We anticipate that the Plexajel ASC will be just the first of several products in this new line.

We are in the process of finalizing a new clinical study agreement with Boston University to conduct a second clinical test of Clorpactin®, our proprietary antimicrobial product, for the treatment of gingivitis. The initial study that was conducted last year showed excellent promise and indicated that our product significantly reduced gingival inflammation compared to a placebo. However, some additional feedback we received indicated that many patients disliked the taste of the product, so we have developed a method of making the taste more palatable, with the hope that patient compliance will then be better if and when the product is marketed. We are now awaiting approval from the Institutional Review Board of Boston University to allow the study to proceed, and we hope to begin in March, with projected completion to be in the third quarter of this year.

I will provide further updates and more detailed information on these and many of our other ongoing projects in the Annual Report due out in mid-April. While we are disappointed that 2002 was not as profitable a year as was 2001, we shouldn't lose sight of that fact that we had a very profitable year, and with the possibility of an economic turnaround we are very optimistic about 2003. We are extremely pleased with the way this year has started, and are hopeful that this is an indication of what is in store for us this fiscal year.

Sincerely,

UNITED-GUARDIAN, INC.

A handwritten signature in black ink, appearing to read "Alfred R. Globus". The signature is written in a cursive, flowing style.

DR. ALFRED R. GLOBUS
Chairman and CEO