U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-KSB

(Mark One)

|X| ANNUAL REPORT UNDER SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2001.

OR

| | TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-7855

UNITED-GUARDIAN, INC.
(Name of small business issuer in its charter)

Delaware	11-1719724
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
230 Marcus Blvd., Hauppauge, NY	11788
(Address or principal executive offices)	(Zip Code)

Issuer's telephone number, including area code: (631) 273-0900

Securities registered pursuant to Section l2(b) of the Exchange Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.10 par value	American Stock Exchange

Securities registered pursuant to Section l2(g) of the Exchange Act: None

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or l5(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

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Indicate by check mark if there is no disclosure herein of delinquent filers pursuant to Item 405 of Regulation S-B, and if, to the best of registrant's knowledge, no disclosure will be contained in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [X]

The Registrant's revenues for the fiscal year ended December 31, 2001 were $9,583,682.

On March 1, 2002 the aggregate market value of the Registrant's Common Stock (based upon the closing sales price of such shares on the American Stock Exchange as reported in The Wall Street Journal) held by non-affiliates of the Registrant was approximately $14,186,525 (Aggregate market value has been estimated solely for the purposes of this report. For the purpose of this report it has been assumed that all officers and directors of the Registrant are affiliates of the Registrant and no person, other than Alfred R. Globus, is an affiliate by virtue of his stockholdings. The statements made herein shall not be construed as an admission for determining the affiliate status of any person.)

As of March 1, 2002 the Registrant had issued 4,932,639 shares of Common Stock, $.10 par value per share ("Common Stock"), of which 4,870,439 shares were outstanding and 62,200 held as Treasury stock as of that date.

Transitional Small Business Disclosure Format (check one): Yes [ ] No [X]

DOCUMENTS INCORPORATED BY REFERENCE:

Certain information required by Part III (portions of Item 9, as well as Items 10 and 11) is incorporated by reference to the Registrant's definitive proxy statement (the "2002 Proxy Statement") in connection with its 2002 annual meeting of stockholders, which is to be filed no later than April 30, 2002 with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended.

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This annual report on Form 10-KSB contains both historical and "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, which provides a safe harbor for forward-looking statements by the Registrant about its expectations or beliefs concerning future events, such as financial performance, business prospects, and similar matters. The Registrant desires to take advantage of such "safe harbor" provisions and is including this statement for that express purpose. Words such as "anticipates", "believes", "expects", "intends", "future", and similar expressions identify forward-looking statements. Any such "forward-looking" statements in this report reflect the Registrant's current views with respect to future events and financial performance, and are subject to a variety of factors that could cause Registrant's actual results or performance to differ materially from historical results or from the anticipated results or performance expressed or implied by such forward-looking statements. Because of such factors, there can be no assurance that the actual results or developments anticipated by the Registrant will be realized or, even if substantially realized, that they will have the anticipated results. The risks and uncertainties that may affect Registrant's business include, but are not limited to: economic conditions, governmental regulations, technological advances, pricing and competition, acceptance by the marketplace of new products, retention of key personnel, the sufficiency of financial resources to sustain and expand Registrant's operations, and other factors described in this report and in prior filings with the Securities and Exchange Commission. Readers should not place undue reliance on such forward-looking statements, which speak only as of the date hereof, and should be aware that except as may be otherwise legally required of Registrant, Registrant undertakes no obligation to publicly revise any such forward-looking statements to reflect events or circumstances that may arise after the date hereof.

PART I

Item 1. Description of Business

(a) General Development of Business

The Registrant is a Delaware corporation that conducts research, product development, manufacturing and marketing of cosmetic ingredients, personal and health care products, pharmaceuticals, and specialty industrial products. The Registrant also distributes a line of over 3,000 fine organic chemicals, research chemicals, test solutions, indicators, dyes and reagents through a wholly owned subsidiary.

The Registrant operates in two business segments:

(1) The Guardian Laboratories Division ("Guardian") conducts research, product development, manufacturing and marketing of cosmetic ingredients, personal and health care products, pharmaceuticals, and specialty industrial products. The Research and Development Department of Guardian engages in research and development in the fields of cosmetics, health care products, and specialty industrial chemical products, for the purpose of developing new products, and refining existing products that will be marketed or licensed by Guardian. Many of the products manufactured by Guardian, particularly its LUBRAJEL(R) line of products, are marketed worldwide through a network of distributors, and are currently used by many of the major multinational cosmetic companies.

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The Registrant presently has a broad range of products, some of which are currently marketed, some of which are marketable but are not currently marketed by the Registrant, and some of which are still in the developmental stage. Of the products being actively marketed, the two largest product lines are Registrant's LUBRAJEL(R) line of cosmetic ingredients, which accounted for approximately 59% of the Registrant's sales in 2001, and its RENACIDIN(R) IRRIGATION, a pharmaceutical product that accounted for approximately 17% of the Registrant's sales in 2001. The Registrant actively seeks other companies as potential marketers for its products, particularly for those products that are not yet being actively marketed by the Registrant.

(2) Eastern Chemical Corporation ("Eastern"), a wholly-owned subsidiary of the Registrant, distributes an extensive line of fine organic chemicals, research chemicals, test solutions, indicators, dyes, stains, and reagents. Since the Registrant's business activities and marketing efforts over the past several years have focused increasingly on the Guardian division, which the Registrant believes has greater growth potential, the Registrant is in the process of reducing Eastern's inventory levels in order to make the subsidiary more marketable in the event Registrant decides to sell the Eastern operation at some future date. Registrant believes that if the Registrant were to sell Eastern, the loss of revenue from that subsidiary would not significantly impact the Registrant's net income.

(b) Narrative Description of Business

Guardian Laboratories Division

Guardian conducts research, product development, manufacturing and marketing of many different personal care products, pharmaceuticals, medical devices, health care products, cosmetic bases, and proprietary specialty chemical products, all of which are developed by the Registrant, and many of which have unique properties. The products manufactured by Guardian are marketed through marketing partners, distributors, direct advertising, mailings, and trade exhibitions. Guardian's proprietary cosmetic and specialty chemical products are sold through marketing partners and distributors and are incorporated into products marketed by many of the major international cosmetic companies. Many of Guardian's products are marketed through collaborative agreements with larger companies. The pharmaceutical products are sold to end users primarily through drug wholesalers and surgical supply houses. There are also indirect sales to the Veteran's Administration and other government agencies, and to some hospitals and physicians.

During 2001, Guardian's sales accounted for approximately 85% of Registrant's total product sales.

Guardian's products are sold under trademarks or trade names owned by the Registrant. The marks for the most important products, LUBRAJEL and RENACIDIN, are registered as trademarks in the United States Patent and Trademark Office ("Patent Office"). In 2001 sales from these two product lines accounted for approximately 89% of Guardian's sales, and 76% of the sales of the Registrant as a whole.

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LUBRAJEL

LUBRAJEL is a line of nondrying water-based moisturizing and lubricating gels that have applications in the cosmetic industry primarily as a moisturizer and as a base for other cosmetic products, and in the medical field primarily as a lubricant. In the cosmetic industry it is used primarily as a stable gel for application around the eyes and on the face and as an ingredient in skin creams and moisturizers, makeup, body lotions, hair preparations, salves, and ointments. As a medical lubricant it has been used on prelubricated enema tips and thermometers, and as a lubricant for catheters. During 2001, sales of LUBRAJEL products decreased 13.7% from $6,542,880 in 2000 to $5,649,557 in 2001. Sales of LUBRAJEL products represented 70% of Guardian's sales and 59% of the sales of the Registrant as a whole. The most important product in the LUBRAJEL line in 2001 was LUBRAJEL CG (the original form of LUBRAJEL), which decreased in sales from $2,175,097 in 2000 to $1,951,990 in 2001, a decrease of 10%. Sales of the second largest revenue producer in the Lubrajel line, LUBRAJEL MS, decreased 33% from $1,730,202 in 2000 to $1,161,907 in 2001. Sales of LUBRAJEL OIL, another important product in the LUBRAJEL line, decreased 12% from $651,456 in 2000 to $571,291 in 2001. The Registrant believes that the decrease in LUBRAJEL sales was the result of (a) an overall decline in sales of personal care products in which the Lubrajel products are used, as a result of the global economic decline in 2001, and (b) an effort on the part of some of Registrant's customers to maintain lower inventory levels at the end of 2001. It is too soon for Registrant to determine whether any or all of the decline was due to loss of customers.

Registrant believes that Registrant's ability to increase sales of its LUBRAJEL products will depend on (a) the ability of Registrant's marketing partners and distributors to continue to bring the product to the attention of new customers, and (b) Registrant's success in bringing to market a new form of LUBRAJEL that is currently under development. Registrant believes that there is still significant potential to increase sales in certain territories that have only been developed recently, such as Asia, and in particular, China. Any sales increases may be offset somewhat by continuing competition from products introduced by Registrant's competitors. Despite this competition Registrant believes that it will still be able to expand the market for its LUBRAJEL product line. Registrant believes that LUBRAJEL'S reputation for quality and customer service will enable it to continue to compete effectively in the marketplace.

RENACIDIN

RENACIDIN is a urological prescription drug used primarily to prevent the formation of and to dissolve calcifications in catheters implanted in the urinary bladder. It is marketed as a ready to use 10% sterile solution under the name "RENACIDIN IRRIGATION". RENACIDIN IRRIGATION is also approved for use in dissolving certain types of kidney stones. On October 9, 1990, the Patent Office issued to the Registrant a patent covering the method of manufacturing RENACIDIN IRRIGATION. Sales of RENACIDIN IRRIGATION in 2001 accounted for 20% of Guardian's sales and 17% of the sales of the Registrant as a whole. Sales of RENACIDIN IRRIGATION in 2001 increased slightly from $1,566,068 in 2000 to

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$1,606,498 in 2001. This increase was the result of a price increase in April 2000 that affected the entire 2001 fiscal year but only two-thirds of the 2000 fiscal year.

Other Products

Other significant products that are manufactured and sold by Guardian but which did not individually comprise more than 5% of the Registrant's sales in 2001 are as follows:

CLORPACTIN(R) WCS-90 is a microbicidal product used primarily in urology and surgery as an antiseptic for treating a wide range of localized infections in the urinary bladder, the peritoneum, the abdominal cavity, the eye, ear, nose and throat, and sinuses. The product is a white powder that is made into a liquid prior to use. It is a powerful disinfectant, fungicide, deodorizer, bleach, and detergent. Sales of CLORPACTIN decreased slightly from $303,814 in 2000 to $297,414 in 2001 due to normal year to year fluctuations.

KLENSOFT(TM) is a surfactant that can be used in shampoos, body washes, makeup removers, and other cosmetic formulations. The primary customer for Klensoft over the past few years has been in Taiwan, and over the past few years there have been a few new customers for the product in the United Kingdom, France and Korea. Klensoft sales declined significantly from $240,102 in 2000 to $38,788 in 2001 due to a significant decline in demand from the main customer for the product in Taiwan. Based on initial sales for 2002, which in January alone almost equaled all of 2001, Registrant believes that Klensoft sales will once again increase in 2002 based on renewed sales to the major customer in Taiwan. Registrant also believes that the extreme year to year sales fluctuations for this product are the result of erratic inventory control and poor sales forecasting on the part of the major customer for this product.

LUBRAJEL PF is a preservative-free form of LUBRAJEL currently being marketed primarily by Societe D'Etudes Dermatologiques ("Sederma") under the tradename "Norgel". Sederma is the Registrant's distributor of LUBRAJEL in France and a major European cosmetic supplier. It is also distributed by some of Registrant's other marketing partners under the name LUBRAJEL PF. Tests conducted by Sederma indicated that the product self-preserved, and aided in the preservation of other cosmetic ingredients with which it was formulated. Sales of Lubrajel PF declined from $211,260 in 2000 to $138,880 in 2001, a decrease of 34% (these sales are already included in the total Lubrajel sales figure mentioned previously). Registrant believes that this decrease is attributable both to a reduction in demand for this product as well as the timing of orders.

CONFETTI(TM) II DERMAL DELIVERY FLAKES is a new product line introduced in 2000 to replace a previous product line, CONFETTI DERMAL ESSENTIALS. That product line, which had been introduced in 1996, incorporated various functional oil-soluble ingredients into colorful flakes that could be added to and suspended in various water-based products. The product color and ingredients could be customized to meet

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the needs of individual customers. Sales of this previous product line declined from $170,381 in 1999 to $63,936 in 2000 as a result of the incompatibility of the product with certain cosmetic formulations, which limited its use. In 2000 the Registrant reformulated this product and late in the year introduced CONFETTI II DERMAL DELIVERY FLAKES into the cosmetic market. This improved product has much broader compatibility, enabling it to be incorporated into cosmetic formulations with which it was previously incompatible. As a result of the improved formulation, sales of all types of CONFETTI in 2001 increased to $214,863, an increase of 236% over 2000. Since more than half of the 2001 sales were to a customer that is not expected to purchase additional product in 2002, Registrant cannot yet project whether or not CONFETTI sales in the next fiscal year will equal or exceed the sales level of 2001.

LUBRAJEL RR and RC are special grades of LUBRAJEL that can withstand sterilization by gamma radiation, which is one of the methods of terminally sterilizing medical and hospital products. On April 11, 1995, the Registrant was granted a U.S. patent for this unique form of LUBRAJEL. In September, 1994 the Registrant entered into a marketing agreement with Horizon Medical, Inc., a California company engaged in the development and manufacturing of products and services to the medical device and pharmaceutical industries. Horizon has been actively marketing LUBRAJEL RC since January, 1996. Sales of LUBRAJEL RC and RR decreased by 9% from $580,220 in 2000 to $528,295 in 2001 (these sales are already included in the total Lubrajel sales figure mentioned previously).

Other products that do not have significant sales at the present time but have the potential for increased sales in the future, and which as a group constituted approximately 4% of Registrant's sales in 2001, are as follows:

LUBRASIL and LUBRASIL DS are special types of LUBRAJEL in which silicone oil is incorporated into a LUBRAJEL base by microemulsification, while maintaining much of the clarity of regular LUBRAJEL. The products have a silky feel, and are water resistant while moisturizing the skin.

RAZORIDE(TM) is a clear, water-based, surfactant and soap-free shaving product with excellent lubricity and moisturizing properties. Registrant is currently selling this product in bulk to two companies marketing it as a shaving product, one in an institutional market, and the other in a health care market.

UNITWIX(R) is a cosmetic additive used as a thickener for oils and oil-based liquids. It is a proprietary, unpatented product that does not require government approval to market. A new form of Unitwix was introduced in fiscal year 2000. Sales in 2001 were more than double the sales of the previous year.

DESELEX(R) is a replacement for phosphates in detergents.

B-122(TM) and a related product, LUBRASLIDE(TM), are powdered lubricants used in the manufacture of cosmetics such as pressed powders, eye liners, and rouges. They are used as binders for these products, increasing their drop strength and lowering the coefficient of friction and water-repellency. Sales are expected to increase in 2002 due to a new customer for B-122.

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FOAMBREAKER(TM) is a defoamer for cleansing solutions in the electroplating, painting, and electronics industries. The product does not leave the typical "fish-eye" residues associated with silicone defoamers. It is an industrial product that does not require governmental registrations or approvals. It is an unpatented, proprietary product.

ORCHID COMPLEX(TM) is a successor product to our previous Oil of Orchids product and is base for skin creams, lotions, cleansers, and other cosmetics. This product is an extract of fresh orchids, modified by extractants, stabilizers, and preservatives, and is characterized by its excellent lubricity, spreadability and light emolliency. Because of its alcohol solubility it may also be used in fragrance products such as perfumes and toiletries. Its light emolliency lends use in shampoos, bath products and facial. cleansers. It is also a superior emollient for sunscreens, vitamin creams, toners and skin serums. It is sold in two forms, water-soluble and oil soluble. It is too early to project sales as the product was introduced in the fourth quarter of 2001.

Development Activities

Guardian's Research and Development Department has developed a large number of products that can be used in many different industries, including the pharmaceutical, medical, cosmetic, health care, and specialty chemical industries. These products are in various stages of development, some being currently marketable and some being in the very early stages of development requiring a substantial amount of development work to bring them to market. New uses for currently marketed products are also being developed. Once a product is created, the initial development work on it may consist of one or more of the following: (a) laboratory refinements and adjustments to suit the intended uses of the product; (b) stability studies to determine the effective shelf-life of the product and suitable storage and transportation conditions for the product; and (c) laboratory efficacy tests to determine the effectiveness of the product under different conditions.

After the Research and Development Department has completed its initial work on a product and is satisfied with the results of that work, further development work to bring the product to market will continue, including some or all of the following: (a) animal and human clinical studies needed to determine safety and effectiveness of drug or medical device products, which would be needed for submissions to the appropriate regulatory agencies, such as the United States Food and Drug Administration ("FDA") or the United States Environmental Protection Agency ("EPA"); (b) preparatory work for the filing of Investigational New Drug Applications or New Drug Applications; (c) market research to determine the marketability of the product, including the potential market size and most effective method of marketing the product; (d) scaling up from laboratory production batches to pilot batches, and then to full scale production batches, including the determination of the type of equipment necessary to produce the product; (e) upgrading or purchasing new equipment to manufacture the products; and (f) the negotiation of joint venture or distribution agreements to develop and/or market the product. Some of the foregoing work may be done by outside contractors.

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While there can be no assurance that any particular project will result in a new marketable product or a commercially successful product, the Registrant believes that a number of its development projects, including those discussed below, may have commercial potential.

LUBRAJEL

1) Registrant's major research project at the current time is the development of a new form of Lubrajel that will enable it to be used in low pH and salt formulations. The current form of Lubrajel, as well as the competitive products to Lubrajel, cannot be used to gel low pH or salt-containing formulations. Registrant believes that if it is successful it will open up significant new markets for the Lubrajel products. Several prototype products are now being tested, and Registrant is optimistic that it will be successful in developing this new product.

2) Preliminary studies indicated that LUBRAJEL may help to accelerate the healing of wounds, such as leg ulcers, when applied daily and used in conjunction with a Spandex or similar bandage. Horizon Medical, Inc. (see "LUBRAJEL RR" discussion above) had done some work with the product for this use, and received authorization from the FDA to market the product as an accessory to a medical device for specific wound healing uses. Registrant believes that an additional study done on a larger group of patients is warranted, but will not be proceeding further on this project until it can locate a partner to assist with the funding. Other companies in this market have been working independently on the use of Lubrajel as a wound healing agent.

3) The Registrant is continuing to work on a project with a global personal care products company based in the United Kingdom for the use of LUBRAJEL FLUID, a modified form of LUBRAJEL, in a globally marketed consumer health product. The exact nature of this project cannot yet be disclosed due to confidentiality agreements between the Registrant and this U.K. company. In 2000 the Registrant began to ship small quantities of product, but full- scale marketing will not begin until that company resolves some packaging issues, which is not expected to occur until the second half of 2002.

CLORONINE

Cloronine is a powerful disinfectant, germicide, and sanitizer for disinfecting medical and surgical instruments and equipment (particularly where autoclaves are not available), and for the purification of water supplies. The product had been approved for certain uses in France and Canada, and is still being sold in Canada. Before this product can be marketed in the United States for any purpose, additional tests will have to be done to determine if the product can be registered with the EPA as a sterilant or germicide. These tests would comprise laboratory microbiological studies, compatibility studies, and specific studies on its intended uses. The product will also have to be registered with the FDA as an accessory to a medical device. Neither registration process has yet begun. Due to the expense and time required, the Registrant hopes to work jointly with other companies to obtain these registrations. The Registrant was granted two patents for this product.

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CLORPACTIN

The Registrant has just completed a preliminary clinical trial to determine the effectiveness of Clorpactin in the treatment of periodontal disease. The initial test was performed at the School of Dental Medicine at Boston University. Registrant is currently awaiting the final report from those tests. If the test results are positive, Registrant will either proceed on its own to do further clinical testing, or will resume its previous efforts to locate a partner to work with it on this project. Regulatory approvals would be needed in order to market the product for this new use.

ANTI-VIRAL COMPOUND

Registrant is working with a company that has developed a new anti-viral compound and has requested the assistance of the Registrant in developing a water-based gel base to carry the product. Because of Registrant's long experience in developing water-based gels, Registrant believes that it is in an excellent position to develop a suitable carrier for the product. If Registrant is successful, it would supply the base product and incorporate their anti-viral compound. While the market potential for this product is very significant, regulatory approvals would be needed before the product could be marketed. As a result, even if Registrant is successful in developing this product it does not anticipate any revenue being generated for several years.

Trademarks and Patents

The Registrant strongly believes in protecting its intellectual property and intends whenever possible to make efforts to obtain patents in connection with its product development program. The Registrant currently owns many United States patents relating to its products. The Registrant has patent applications pending with respect to a number of its research and development products. Patents formerly held by the Registrant on certain products have expired. There can be no assurance that any patents held by the Registrant will be valid or otherwise of value to the Registrant or that any patent applied for will be granted. However, the Registrant believes that its proprietary manufacturing techniques and procedures with respect to certain products offer it some protection from duplication by competitors regardless of the patent status of the products.

The various trademarks and trade names owned or used by the Registrant in Guardian's business are of varying importance to the Registrant. The most significant products for which the Registrant has a registered trademark are LUBRAJEL, RENACIDIN, and CLORPACTIN.

Set forth below is a table listing certain information with respect to all unexpired U.S. patents held by the Registrant:

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PATENT NAME	PATENT #	ISSUE DATE	EXPIRATION DATE
<S>	<C>	<C>	<C>
Treatment of Hazardous Waste	4,581,130	4/8/86	4/8/03
Treatment of Hazardous Materials; Dehalogenation with sodium-copper-lead alloy	4,601,817	7/22/86	7/22/03
Treatment of Hazardous Waste - ternary alloy and oil slurry thereof; sodium, copper, lead	4,695,400	9/22/87	9/22/04
Iodophor; Polyethylene Glycol Alkylaryl-sulfonate Iodine complex	4,873,354	10/10/89	10/10/06
Thermal Resistant Microbial Agent ("Cloronine")	4,954,316	9/4/90	9/4/07
Method of Preparing Time-Stable Solutions of Non-Pyrogenic Magnesium Gluconocitrate ("Renacidin Irrigation")	4,962,208	10/9/90	10/9/07
Use of Clorpactin for the Treatment of Animal Mastitis & the applicator used in that treatment (owned jointly by the Registrant and Diversey Ltd.)	4,983,634	1/8/91	1/8/08
Iodophor; biocide; reacting polyethylene glycol, alkylarylsulfonate and Iodine water-propylene glycol solvent refluxing	5,013,859	5/7/91	5/7/08
Stabilized Beta Carotene	5,023,355	6/11/91	6/11/08
Stable, Active Chlorine Containing Anti-microbial Compositions ("Cloronine")	5,128,342	7/7/92	7/7/09
Gamma Radiation Resistant Lubricating Gel	5,405,622	4/11/95	4/11/12
Delivery system for oil soluble actives in cosmetic/ personal care products	6,117,419	9/12/00	9/12/17
Microemulsion of silicone in a water-based gel that forms a clear, transparent, highly stable moisturizer and lubricant for cosmetic and medical use	6,348,199	2/19/02	2/19/19

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The Registrant requires all employees and consultants who may receive proprietary information to agree in writing to keep such proprietary information confidential.

Eastern Chemical Corporation

Eastern Chemical Corporation is a wholly owned subsidiary of the Registrant. It distributes an extensive line of fine organic chemicals, research chemicals, test solutions, indicators, dyes and stains, and reagents. In 2001, Eastern's sales accounted for approximately 14.9% of the total product sales of the Registrant versus 14.5% in 2000. Eastern's sales decreased by 5.1% in 2001. The decrease was the result of loss of

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sales resulting from the Registrant's continuing efforts to reduce Eastern's inventory, which resulted in an inability to service certain purchase requests that required immediate shipment from inventory.

Marketing

Guardian markets its products through (a) distributors; (b) advertising in medical and trade journals, by mailings to physicians and to the trade; and (c) exhibitions at appropriate medical meetings. The pharmaceutical products are generally sold in the United States to drug wholesalers, surgical supply houses and drug stores for resale, and directly to hospitals, physicians, the Veteran's Administration, and other government agencies. The proprietary cosmetic and specialty chemical products are sold to distributors for resale and directly to manufacturers for use as ingredients or additives in the manufacture or compounding of other cosmetic or chemical products.

Eastern's products are marketed through advertising in trade publications and direct mailings. They are sold to distributors and directly to users in a wide variety of applications. Eastern does not sell any unique products and is not dependent on any single customer or group of customers on a continuous basis.

Domestic Sales

In the United States Registrant's cosmetic products are marketed exclusively by International Specialty Products ("ISP") in accordance with a marketing agreement entered into on July 5, 2000, which replaced and superseded two previous marketing agreements entered into in 1994 and 1996 (see "Marketing Agreements" below). ISP also has some rights to sell some of Registrant's other industrial and medical products. In 2001 ISP's purchases for distribution in the United States were estimated to be approximately $1,210,749 compared to $1,443,000 in 2000, and accounted for approximately 12.6% of the Registrant's sales (an estimate based on sales information provided to Registrant by ISP; Registrant has no way of independently determining which of ISP's purchases from Registrant are intended for domestic sale and which are intended for foreign sale.)

Registrant's domestic sales of pharmaceutical products are handled primarily through the major full-line drug wholesalers and account for approximately 19.7% of Registrant's sales. Registrant's other products, such as its industrial products, are sold directly to end-users by the Registrant and account for less than 4% of Registrant's sales

Foreign Sales

In 2001 Registrant derived approximately 46.7% of its sales from customers in foreign countries, primarily from sales of its cosmetic products in Europe and Asia, compared to 43.2% in 2000. The Registrant currently has 6 distributors for its cosmetic products outside the United States: S. Black Ltd. in the United Kingdom ("S. Black"); Sederma in France; Luigi & Felice Castelli S.R.L. in Italy; S. Black Gmbh in Switzerland; C&M International in Korea; and ISP in Germany, Spain, Scandinavia, Eastern Europe, the Benelux countries, Canada, Mexico, South

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& Central America, Asia (with the exception of Korea), and most of the remaining foreign markets. The percentage of Registrant's sales attributable to its largest foreign distributors were as follows: ISP: 19.8% (an estimate of ISP's purchases intended for sale outside the U.S., based on foreign sales figures provided to the Registrant by ISP); Sederma: 9.2%; S. Black: 4.5%; and C&M International: 3.5%.

Marketing Agreements

ISP

In 2000 Registrant entered into a new marketing agreement with ISP, which modified and consolidated two previous marketing agreements entered into with ISP in 1994 and 1996. The previous agreements had granted ISP the right to market Registrant's personal care products, as well as some medical and industrial products, in the United States, Canada, Mexico, Central and South America, Europe (excluding France, Italy, and Switzerland), Asia (except Korea), Australia, and Africa. The 2000 agreement gave Registrant greater flexibility in appointing other marketing partners in areas where ISP is not active or has not been successful, and gave ISP certain additional territories in which they can market the Registrant's products. The agreement provided for exclusivity for ISP in those markets as long as annual minimum purchase requirements were met. ISP manufactures and markets an extensive line of personal care, pharmaceutical, and industrial products on a global basis.

Registrant believes that in the event ISP were to cease marketing Registrant's products, alternative arrangements could be made to continue to supply product to the customers currently using Registrant's products without any significant interruption of supply.

Registrant has other marketing arrangements with marketing partners in the U.K, France, Switzerland, Korea, and Italy, but all of these other arrangements are operating under either verbal agreements or expired written agreements, and are subject to termination at any time by either party.

Raw Materials

The principal raw materials used by the Registrant consist of common industrial organic chemicals, laboratory reagents, and common inorganic chemicals. Most of these materials are available in ample supply from numerous sources. The Registrant's principal raw material suppliers are Proctor and Gamble, Callahan Chemical Company, Van Waters & Rogers, Inc., Protameen Chemicals Inc., Alzo, Inc., Morton Thiokol, Esprit Chemical Company LP, Eastman Chemical Products, Clariant Corp., Ishihara U.S.A., Nissei Trading Co., and Varessa, Ltd.

Inventories; Returns and Allowances

The Registrant's business requires that it maintain moderate inventories of certain of its finished goods. Historically, returns and allowances have not been a significant factor in the Registrant's business.

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Backlog

The Registrant currently does not have any significant backlog.

Competition

Guardian has many products or processes that are either unique in their field or have some unique characteristics, and therefore are not in direct competition with the products or processes of other pharmaceutical, chemical, or health care companies. However, the pharmaceutical, health care, and cosmetic industries are all highly competitive, and the Registrant expects competition to intensify as advances in the field are made and become widely known. There may be many domestic and foreign companies that are engaged in the same or similar areas of research as those in which the Registrant is engaged, many of which have substantially greater financial, research, manpower, marketing and distribution resources than the Registrant. In addition, there are many large, integrated and established pharmaceutical, chemical and cosmetic companies that have greater capacity than the Registrant to develop and to commercialize types of products upon which the Registrant's research and development programs are based. The Registrant believes that manufacturing, regulatory, distribution and marketing expertise will be increasingly important competitive factors. In this regard, the Registrant believes that arrangements with major health care and medical or hospital products suppliers will be important factors in the commercialization of many of the products which it is currently developing.

Eastern faces competition from many other chemical manufacturers and distributors, many of which have much greater financial resources than those of the Registrant. Eastern's competition is based primarily upon price, service and quality. Eastern attempts to maintain its competitive position in the industry through its ability to (i) locate and make wholesale arrangements to purchase the chemicals with suppliers located all over the world, (ii) maintain a sufficient inventory of each of its items at all times, and (iii) customize each order as to quantity of the item requested and to tailor the price of the order to such quantity. Eastern's primary competitors are SA Fine Chemicals, Acros Organics, Pfaltz & Bauer, Inc., and Spectrum Chemical Mfg. Corp.

ISO-9000 REGISTRATION

On November 24, 1998 the Registrant earned ISO-9002 registration from Underwriters Laboratories, Inc., indicating that the Registrant's documented procedures and overall operations had attained the high level of quality needed to receive ISO registration. Registrant continues to be evaluated every six months for continued compliance with ISO-9002 standards, and is currently in good standing under this registration.

Government Regulation

Regulation by governmental authorities in the United States and other countries is a significant factor in the manufacturing and marketing of many of the Registrant's products. The Registrant and many of Registrant's products are subject to certain government regulations.

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Products that may be developed and sold by the Registrant in the United States may require approval from federal regulatory agencies, such as the FDA, as well as state regulatory agencies. Products that may be developed and sold by the Registrant outside of the United States may require approval from foreign regulatory agencies. Any medical device products developed by the Registrant will be subject to regulation by the Center for Devices and Radiological Health of the FDA, and will usually require a 510(k) pre-market notification. Most pharmaceutical products will require clinical evaluation under an Investigational New Drug ("IND") application prior to submission of a New Drug Application ("NDA") for approval of a new drug product.

A drug product normally must go through several phases in order to obtain FDA approval. The research phase involves work up to and including discovery, research, and initial production. Next is the pre-clinical phase, which involves studies in animal models necessary to support an IND application to the FDA and foreign health registration authorities to commence clinical testing in humans. Clinical trials for pharmaceutical products are conducted in three phases. In Phase I, studies are conducted to determine safety and dosages. In Phase II, studies are conducted to gain preliminary evidence as to the efficacy of the product. In Phase III, studies are conducted to provide sufficient data for the statistical proof of safety and efficacy, including dose regimen. Phase III is the final stage of such clinical studies prior to the submission of an application for approval of an NDA. The amount of time necessary to complete any of these phases cannot be predicted with any certainty.

In all cases, the Registrant is required to comply with all pertinent Good Manufacturing Practices of the FDA for medical devices and drugs. Accordingly, the regulations to which the Registrant and certain of its products may be subject, and any changes with respect thereto, may materially affect the Registrant's ability to produce and market new products developed by the Registrant.

The Registrant's present and future activities are, and will likely continue to be, subject to varying degrees of additional regulation under the Occupational Safety and Health Act, Environmental Protection Act, import, export and customs regulations, and other present and possible future foreign, federal, state and local regulations.

Portions of the Registrant's operating expenses are directly attributable to complying with federal, state, and local environmental statutes and regulations. In 2001 and 2000 the Registrant incurred approximately $48,000 and $44,000 respectively, in environmental compliance costs.

Research and Development Expense

Portions of the Registrant's operating expenses are directly attributable to research and development the Registrant performs. In 2001 and 2000, the Registrant incurred approximately $334,000 and $294,000, respectively, in research and development expenses. The expenses consist of direct costs as well as factory overhead. No portion of the research and development expenses was directly paid by the Registrant's customers.

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Employees

The Registrant presently employs 42 people, 6 of whom serve in an executive capacity, 21 in research, quality control and manufacturing, 5 in maintenance and construction and 10 in office and administrative work. Of the total number of employees, 39 are full time employees. None of the Registrant's employees are covered by a collective bargaining agreement. The Registrant believes that its relations with its employees are satisfactory.

Item 2. Description of Property.

The Registrant maintains its principal offices and conducts most of its research at 230 Marcus Boulevard, Hauppauge, New York 11788. These premises, which the Registrant owns, contain approximately 30,000 square feet of manufacturing space, 15,000 square feet of warehouse space, and 5,000 square feet of office and laboratory space on approximately 2.7 acres of land. The Registrant has now fully developed the 2.7 acres, and fully utilizes the buildings occupying the land. The Registrant believes that the aforementioned property is adequate for its immediately foreseeable needs. The property is presently unencumbered and is adequately insured.

Item 3. Legal Proceedings

On January 25, 2002 Registrant received notice that it had been named as a co-defendant in a medical malpractice claim filed in the Superior Court of Santa Clara County, California. The claim alleged negligence on the part of the plaintiff's physician during the administration of Clorpactin, one of Registrant's medical products. It also alleged that Registrant's product was responsible for some of the injuries caused to the Plaintiff. No damages were specified. Registrant has turned the claim over to its insurance carrier, which has retained legal counsel for the Registrant in California. Registrant intends to vigorously defend this suit and is confident that it will be determined that its product was not responsible for Plaintiff's injuries.

In February, 2002 Registrant was notified that it might be made a third party defendant in a lawsuit filed by the New York State Department of Environmental Conservation ("DEC") against seven global chemical companies in connection with the cleanup of a hazardous waste site previously occupied by Hexagon Laboratories in the Bronx, New York. The State of New York is trying to recover its cleanup costs from anyone who did business with Hexagon over its 40 year existence. Paragon Organic Chemicals, a wholly owned subsidiary of the Registrant, purchased small quantities of Hexagon products during the period 1963 through 1982, and was one of approximately 172 companies notified that they might be made parties to this action to help contribute to the cleanup costs. As of this writing there is a proposal for all potential parties to pay $50,000 each to be released from the action, but the Registrant does not believe that it will have to pay this amount. Registrant has entered into direct discussions with the DEC and has offered a proposal that would allow small companies like Paragon to be dismissed from the action with a much

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lower payment, using a tiered structure based on the relative revenues of the companies involved. Registrant is also considering taking the position that has been taken by about 70 of the other potential defendants so far, which is not to participate in the settlement and allow the DEC to work out a settlement with the larger companies. This position would be based on the Registrant's belief that it is unlikely that the DEC will seek contribution from the smaller companies involved, such as Paragon, making this a viable option for the Registrant.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters.

Market Information

The Common Stock of the Registrant is traded on the American Stock Exchange (the "AMEX") under the symbol "UG". The following table sets forth for the periods indicated the high and low closing sale prices of the shares of Common Stock, as reported by the AMEX Market Statistics for the period January 1, 2000 to December 31, 2001. The quotations represent prices between dealers and do not include retail markup, markdown or commission:

Quarters		Year Ended December 31, 2001		Year Ended December 31, 2000	
		High	Low	High	Low
First	(1/1 - 3/31)	$ 5.75	$ 4.25	$ 5.31	$ 3.38
Second	(4/1 - 6/30)	$ 8.00	$ 4.95	$ 5.19	$ 4.00
Third	(7/1 - 9/30)	$ 6.36	$ 4.60	$ 5.25	$ 4.25
Fourth	(10/1 - 12/31)	$ 5.60	$ 5.07	$ 5.00	$ 3.75

Holders of Record

As of March 1, 2002 there were 1,130 holders of record of Common Stock.

Cash Dividends

On January 10, 2002 the Registrant paid a $.10 per share dividend to all stockholders of record as of December 26, 2001. On January 5, 2001 the Registrant paid a $.10 per share dividend to all stockholders of record as of December 18, 2000.

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Item 6. Management's Discussion and Analysis or Plan of Operation

Results Of Operations:
Year Ended December 31, 2001 Compared to
Year Ended December 31, 2000

Revenue

Consolidated revenue in 2001 decreased by $863,692 (8%) compared to 2000 due to a revenue decrease in the Guardian Division of $786,478 (9%) and a revenue decrease in the Eastern Division of $77,214 (5%). The Guardian sales decrease is due to a slight decline in demand for Guardian's products resulting from the economic slowdown taking place both in the United States as well as markets overseas. The decrease in Eastern sales was the result of both a downsizing of the Eastern operation as well as normal fluctuations in the purchasing patterns of customers.

Costs and Expenses

Costs and expenses in 2001 decreased by $327,785 (4%) compared to the prior year due to decreases in cost of sales of $403,771 (8%) and increases in operating expenses of $75,986 (3%). Costs of sales as a percentage of sales increased slightly from 48.4% in 2000 to 48.6% in 2001.

The increase in operating expenses in 2001 was primarily due to increases in payroll and payroll related costs.

Other Income (Expense)

Investment income increased from $238,144 to $244,415 principally due to the investing of excess cash provided from operations. The Registrant realized losses on sale of assets of $5,302 in 2001.

Provision for Income Taxes

The provision for income taxes decreased from $1,313,132 in 2000 to $941,055 in 2001. The decrease in the effective tax rate in 2001 was primarily due to the Registrants utilization of the foreign income exclusion.

Liquidity and Capital Resources

Working capital increased from $6,882,794 as of the end of 2000 to $8,501,914 as of the end of 2001, an increase of $1,619,120 (24%). The current ratio increased from 7.8 to 1 at December 31, 2000 to 9.1 to 1 at December 31, 2001. The increase in working capital was due primarily to increases in cash provided by operations.

The Registrant has a line of credit agreement with a bank for borrowings of up to $700,000. As of December 31, 2001, there were no outstanding borrowings on this line of credit.

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The Registrant generated cash from operations of $2,261,653 in 2001 compared to $2,428,412 in 2000. The decrease in 2001 was primarily due to the decline in earnings. During the years 2001 and 2000 the Registrant invested approximately $173,000 and $147,000, respectively, for plant and equipment. Cash used in investing activities was $2,490,709 and $1,846,013 in the years ended December 31, 2001 and 2000 respectively. The increase in 2001 was mainly due to an increase in the purchase of marketable securities. Cash used in financing activities was $397,899 and $370,143 in the years ended December 31, 2001 and 2000 respectively. The increase was primarily due to an increase in dividends paid in 2001. While the Registrant believes that its working capital is sufficient to support its operating requirements for the next fiscal year, the Registrant's long-term liquidity position will be dependent upon its ability to generate sufficient cash flow from operations. Registrant has no material commitments for future capital expenditures.

Impact of Inflation, Changing Prices, and Seasonality

While it is difficult to assess the impact of inflation on the Registrant's operations, management believes that, because of the proprietary nature of the majority of its product line, inflation has had little impact on net sales. Sales have changed as a result of volume and product mix. While inflation has had an impact on the cost of sales and payroll, these increases have been recaptured by price increases to the greatest extent possible. Registrant's products and sales are not considered to be seasonal, and are generally distributed evenly throughout the year.

Item 7. Financial Statements.

Annexed hereto starting on page F-1

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not Required.

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance With Section 16(a) of the Exchange Act.

Directors and Executive Officers

Set forth in the table below is certain information as of March 9, 2002 with respect to the executive officers and directors of the Registrant:

Name	Age	Position(s) with the Registrant
Dr. Alfred R. Globus	81	Chairman of the Board, Chief Executive Officer and Director

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Kenneth H. Globus	50	President, Chief Financial Officer, General Counsel and Director
Robert S. Rubinger	59	Executive Vice President, Secretary, Treasurer and Director
Charles W. Castanza	69	Senior Vice President and Director
Derek Hampson	62	Vice President
Joseph J. Vernice	43	Vice President
Lawrence Maietta	44	Director
Henry P. Globus	79	Director
Benjamin Wm. Mehlman	91	Director
Alan E. Katz	58	Director
Arthur Dresner	60	Director

Dr. Alfred Globus has been Chairman of the Board and Chief Executive Officer of the Registrant since July, 1988. He served as Chairman of the Board and President of the Registrant from the inception of the Registrant in 1942 until July, 1988. He has been a director of the Registrant since 1942.

Kenneth H. Globus has been President and General Counsel of the Registrant since July, 1988. He served as Vice President and General Counsel of the Registrant from July, 1983 until July, 1988. He has been a director of the Registrant since 1984. He became the Chief Financial Officer in November, 1997.

Robert S. Rubinger has been Executive Vice President and Secretary of the Registrant since July, 1988, and Treasurer since May, 1994. He served as Vice President and Secretary of the Registrant from February, 1982 until July, 1988. He has been a director of the Registrant since 1982.

Charles W. Castanza has been a Senior Vice President of the Registrant since March 2000. He served as Vice President from April, 1986 until March 2000. He served as Operations Manager of Chemicals and Pharmaceuticals of the Registrant from February, 1982 until April, 1986. He has been a director of the Registrant since 1982.

Derek Hampson has been a Vice President of the Registrant since October, 1987. He has served as Manager of the Eastern Chemical Corp. subsidiary since 1971.

Joseph J. Vernice has been a Vice President of the Registrant since February, 1995. He served as Assistant Vice President of the Registrant from November, 1991 until February, 1995.

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Lawrence Maietta has been a partner in the public accounting firm of Bonamassa, Maietta & Cartelli, LLP in Brooklyn, NY since October, 1991. For more than five years prior to that he was a partner in the public accounting firm of Wilfred, Wyler & Co. in New York, NY. He was controller for the Registrant from October, 1991 until November, 1997, and a director of the Registrant since February, 1994.

Henry P. Globus has been a consultant to the Registrant since July, 1988. He served as Executive Vice President of the Registrant from 1982 until July, 1988. He has been a director of the Registrant since 1947.

Benjamin William Mehlman was formerly a judge and attorney in private practice until he retired from the practice of law in February, 1999. From 1984 to 1998 he had been counsel to the law firm of William T. Friedman and its predecessor, Friedman and Shaftan. He has been a director of the Registrant since 1964.

Alan E. Katz has been a partner in the law firm of Greenfield Stein & Senior, LLP, New York, NY since November, 1984. He has been a director of the Registrant since February, 1994.

Arthur Dresner is an attorney in private practice and an independent business consultant. From June 1998 to the present he has been engaged as "Of Counsel" to the law firm of Reed Smith, LLP (formerly McAulay Nissen Goldberg Kiel & Hand in New York City). From 1974 until 1997 he was employed as a Vice President in the corporate development area and general management of ISP. He has been a director of the Registrant since April, 1997.

Dr. Alfred R. Globus and Henry P. Globus are brothers. Kenneth H. Globus is the son of Henry P. Globus and the nephew of Dr. Alfred R. Globus. There are no other family relationships between any directors or officers of the Registrant.

Compliance with Section 16(a) of the Exchange Act

The information required by this section is incorporated herein by reference to the section entitled "Directors and Executive Officers - Section 16(a) Beneficial Ownership Reporting Compliance" of the proxy statement for the 2002 annual meeting of stockholders ("2002 Proxy Statement").

Item 10. Executive Compensation.

The information required by this Item is incorporated herein by reference to the section entitled "Compensation of Directors and Executive Officers - Summary Compensation Table" of the 2002 Proxy Statement.

Item 11. Security Ownership of Certain Beneficial Owners and Management.

The information required by this Item is incorporated herein by reference to the section entitled "Voting Securities and Principal Stockholders - Security Ownership of Management" of the 2002 Proxy Statement.

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Item 12. Certain Relationships and Related Transactions.

The Registrant previously had a split dollar life insurance arrangement with Alfred R. Globus, its Chairman and Chief Executive Officer ("Insured"). For fiscal years 1995 through 1998 Registrant made non-interest-bearing advances totaling $348,161 to cover its portion of the policy premium. The Insured had agreed to repay the Registrant in the event the policy was ever terminated, which it was in July, 2000. In August, 2000 the Insured executed a Promissory Note in the amount of $348,161 plus interest at the rate of 6.6% per annum from July 8, 2000. The note was due and payable on July 8, 2003. In 2000 the Insured paid to the Registrant $205,000 by transferring to the Registrant 40,000 shares of his stock of the Registrant, which was valued at $5.125 per share, the closing price on the date of the transfer of the stock. Of this amount, $4,155 was applied to accrued interest, and $200,845 to principal, leaving an outstanding balance as of December 31, 2000 of $147,316 in principal and $2,930 in accrued interest. In April, 2001 the Insured transferred to the Registrant another 20,000 shares of his stock of the Registrant. The closing price of the stock on the day of the transfer was $7.11 per share. $136,180 of this amount was applied towards principal, and $6,020 towards accrued interest. In May, 2001 the Insured transferred to the Registrant another 2,200 shares of his stock of the Registrant. The closing price of the stock on the day of the transfer was $5.65 per share. $11,136 dollars of this amount was applied towards principal, and $42 was applied towards accrued interest. This final transfer paid off the balance due on the promissory note. An overpayment of $1,252 was returned to the Insured, zeroing out the account.

This method of repayment was approved by the Board of Directors of Registrant.

Item 13. Exhibits, List and Reports on Form 8-K

(a) Exhibits

3(a) Certificate of Incorporation of the Registrant as filed April 22, 1987. Incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K, dated September 21, 1987 (the "1987 8-K").

3(b) Certificate of Merger of United-Guardian, Inc. (New York) with and into the Registrant as filed with the Secretary of State of the State of Delaware on September 10, 1987. Incorporated by reference to Exhibit 3(b) to the Registrant's Annual Report on Form 10-K for the fiscal year ended February 29, 1988 (the "1988 10-K").

3(c) By-laws of the Registrant. Incorporated by reference to Exhibit 4.2 to the 1987 8-K.

4(a) Specimen Certificate for shares of common stock of the Registrant. Incorporated by reference to Exhibit 4(a) to the 1988 10-K.

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10(a) Qualified Retirement Income Plan for Employees of the Registrant, as restated April 1, 1976. Incorporated by reference to Exhibit 11(c) of the Registrant's Registration Statement on Form S-1 (Registration No. 2-63114) declared effective February 9, 1979.

10(b) Employment Termination Agreement dated July 8, 1988 between the Registrant and Henry Globus. Incorporated by reference to Exhibit 10(i) to the Registrant's Annual Report on Form 10-K for the 10-month transition period from March 1, 1991 to December 31, 1991.

10(c) Exclusive Distributor Agreement between the Registrant and ISP Technologies Inc., dated July 5, 2000. Incorporated by reference to Exhibit 10(d) to the Registrant's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2000.

21 Subsidiaries of the Registrant:

Name	Jurisdiction of Incorporation	Name Under Which it does Business
Eastern Chemical Corporation	New York	Eastern Chemical Corporation
Dieselite Corporation **	Delaware	N/A
Paragon Organic Chemicals, Inc.	New York	Paragon Organic Chemicals
Transcontinental Processes (Pty.) Ltd.*	Australia	N/A

* Inactive without assets
** Inactive

(b) Reports on Form 8-K: None

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Stockholders
United-Guardian, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of United-Guardian, Inc. (a Delaware corporation) and Subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of earnings, stockholders' equity and comprehensive income, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of United-Guardian, Inc. and Subsidiaries as of December 31, 2001 and 2000, and the consolidated results of their operations and their consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

GRANT THORNTON LLP

Melville, New York
March 1, 2002

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United-Guardian, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

December 31,

ASSETS

	2001	2000
CURRENT ASSETS		
Cash and cash equivalents	$1,599,857	$2,226,812
Temporary investments	4,365,114	2,736,886
Marketable securities	944,348	270,924
Accounts receivable, net of allowance for doubtful accounts of $63,100 and $47,300, respectively	844,388	801,070
Inventories	1,185,535	1,464,564
Prepaid expenses and other current assets	327,924	169,605
Deferred income taxes	279,824	224,688
Total current assets	9,546,990	7,894,549
PROPERTY, PLANT AND EQUIPMENT		
Land	69,000	69,000
Factory equipment and fixtures	2,698,088	2,613,203
Building and improvements	2,019,136	1,985,342
Waste disposal plant	133,532	133,532
	4,919,756	4,801,077
Less accumulated depreciation	3,721,343	3,533,542
	1,198,413	1,267,535
OTHER ASSETS		
Processes and patents, net of accumulated amortization of $946,647 and $894,802, respectively	35,150	86,995
Note receivable-officer	-	147,316
Other	1,000	1,000
	36,150	235,311
	$10,781,553	$9,397,395

The accompanying notes are an integral part of these financial statements.

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United-Guardian, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

December 31,

LIABILITIES AND STOCKHOLDERS' EQUITY

	2001	2000
CURRENT LIABILITIES		
Dividends payable	$ 487,044	$ 486,114
Accounts payable	213,728	178,035
Accrued expenses	344,304	262,120
Taxes payable	-	79,450
Current portion of long-term debt	-	6,036
Total current liabilities	1,045,076	1,011,755
DEFERRED INCOME TAXES	10,000	10,000
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock, $.10 par value; authorized, 10,000,000 shares; issued, 4,932,639 and 4,901,139 shares, respectively; outstanding, 4,870,439 and 4,861,139, respectively	493,264	490,114
Capital in excess of par value	3,492,518	3,373,417
Accumulated other comprehensive loss	(24,024)	(3,274)
Retained earnings	6,124,349	4,720,383
Treasury stock, at cost; 62,200 and 40,000 shares, respectively	(359,630)	(205,000)
	9,726,477	8,375,640
	$10,781,553	$9,397,395

The accompanying notes are an integral part of these financial statements.

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United-Guardian, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF EARNINGS

Year ended December 31,

	2001	2000
Revenue		
Net sales	$ 9,583,682	$10,447,374
Costs and expenses		
Cost of sales	4,654,251	5,058,022
Operating expenses	2,336,441	2,260,455
	6,990,692	7,318,477
Earnings from operations	2,592,990	3,128,897
Other income (expense)		
Interest expense	(38)	(536)
Investment income	244,415	238,144
Loss on sale of assets	(5,302)	-
Earnings before income taxes	2,832,065	3,366,505
Provision for income taxes	941,055	1,313,132
NET EARNINGS	$ 1,891,010	$ 2,053,373
Earnings per common share (basic and diluted)	.39	.42
Basic weighted average shares	4,868,215	4,884,439
Diluted weighted average shares	4,886,769	4,909,888

The accompanying notes are an integral part of these financial statements.

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United-Guardian, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
AND COMPREHENSIVE INCOME

Years ended December 31, 2000 and 2001

	Common stock		Capital in excess of	Accumulated other comprehensive	Retained	Treasury		Comprehensive
	Shares	Amount	par value	income (loss)	earnings	stock	Total	income
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, January 01, 2000	4,889,339	$ 488,934	$ 3,343,417	$ 14,736	$ 3,153,124		$ 7,000,211	
Issuance of common stock in connection with exercise of stock options	11,800	1,180	30,000				31,180	
Unrealized loss on stock marketable securities, net of deferred income tax benefit of $10,713...				(18,010)			(18,010)	$ (18,010)
Net earnings					2,053,373		2,053,373	2,053,373
Dividends declared					(486,114)		(486,114)	
Acquisition of treasury stock..						$(205,000)	(205,000)	
Comprehensive income								$2,035,363
Balance, December 31, 2000	4,901,139	490,114	3,373,417	(3,274)	4,720,383	(205,000)	8,375,640	
Issuance of common stock in connection with exercise of stock options	31,500	3,150	91,101				94,251	
Tax Benefit from exercise of stock options			28,000				28,000	
Unrealized loss on marketable securities, net of deferred income tax benefit of $8,671....				(20,750)			(20,750)	$ (20,750)
Net earnings					1,891,010		1,891,010	1,891,010
Dividends declared					(487,044)		(487,044)	
Acquisition of treasury stock..						(154,630)	(154,630)	
Comprehensive income								$1,870,260
Balance, December 31, 2001	4,932,639	$ 493,264	$ 3,492,518	$ (24,024)	$ 6,124,349	$(359,630)	$9,726,477	

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The accompanying notes are an integral part of these financial statements.

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United-Guardian, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31,

	2001	2000
Cash flows from operating activities		
Net earnings	$1,891,010	$2,053,373
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	275,301	295,267
Net loss on sale of equipment	5,302	-
Provision for (recovery of) bad debts	21,313	(7,649)
Tax Benefit from exercise of stock options	28,000	-
Deferred income taxes	(46,465)	(39,782)
Provision for inventory obsolescence	36,000	-
Increases (decreases) in cash resulting from changes in operating assets and liabilities		
Accounts receivable	(64,631)	191,370
Inventories	243,029	(153,381)
Prepaid expenses and other assets	(165,633)	46,963
Accounts payable	35,693	(103,387)
Accrued expenses and taxes payable	2,734	145,638
Net cash provided by operating activities	2,261,653	2,428,412
Cash flows from investing activities		
Acquisition of plant and equipment	(173,136)	(146,509)
Proceeds from the sale of plant and equipment	13,500	-
Net change in temporary investments	(1,628,228)	(1,686,648)
Purchase of marketable securities	(752,845)	(12,856)
Proceeds from sale of marketable securities	50,000	-
Net cash used in investing activities	(2,490,709)	(1,846,013)
Cash flows from financing activities		
Principal payments on long-term debt	(6,036)	(10,192)
Proceeds from exercise of stock options	94,251	31,180
Dividends paid	(486,114)	(391,131)
Net cash used in financing activities	(397,899)	(370,143)
Net (decrease) increase in cash and cash equivalents.	(626,955)	212,256
Cash and cash equivalents, beginning of year	2,226,812	2,014,556
Cash and cash equivalents, end of year	$1,599,857	$2,226,812

The accompanying notes are an integral part of these financial statements.

<PAGE>

United-Guardian, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001 and 2000

NOTE A - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

United-Guardian, Inc. (the "Company") is a Delaware corporation that operates in two business segments: (1) the Guardian Laboratories Division conducts research, product development, manufacturing and marketing of pharmaceuticals, cosmetics, health care products, medical devices and proprietary industrial products, and (2) the Eastern Chemical Division distributes a line of fine organic chemicals, research chemicals, test solutions, indicators, dyes and reagents. Two major product lines, Lubrajel and Renacidin, included in the Guardian Laboratories Division, accounted for approximately 76% of consolidated sales for each of the years ended December 31, 2001 and 2000, with Lubrajel accounting for 59% and 62%, and Renacidin accounting for 17% and 14%, of consolidated sales for the years ended December 31, 2001 and 2000, respectively.

Principles of Consolidation

The consolidated financial statements of the Company include the accounts of United-Guardian, Inc. and its wholly-owned subsidiaries, Eastern Chemical Corporation and Paragon Organic Chemicals, Inc. All intercompany accounts and transactions have been eliminated.

Revenue Recognition

The Company recognizes revenues as products are shipped and title passes to customers.

Statements of Cash Flows

For financial statement purposes (including cash flows), the Company considers as cash equivalents all highly liquid investments with an original maturity of three months or less. On December 14, 2001 the Company declared a cash dividend of $.10 payable on January 10, 2002 to stockholders of record as of December 26, 2001 aggregating $487,044. On December 6, 2000, the Company declared a dividend of $.10 payable on January 5, 2001 to stockholders of record as of December 18, 2000 aggregating $486,114. Cash payments for interest were $38 and $536 for the years ended December 31, 2001 and 2000, respectively. Cash payments for income taxes were $1,202,271 and $1,255,826 for the years ended December 31, 2001 and 2000, respectively. See also Note G for other non-cash financing and investing activities.

Marketable Securities and Temporary Investments

Marketable securities include investments in equity mutual funds which are classified as "Available for Sale" securities and are reported at their fair values. Unrealized gains and losses on

<PAGE>

NOTE A (continued)

"Available for Sale" securities are reported as accumulated other comprehensive income (loss) in stockholders' equity, net of related tax effects. Investment income is recognized when earned. Realized Gains and Losses on sales of investments are determined on a specific identification basis. Fair values are based on quoted market prices.

Temporary investments consist of certificates of deposit that mature in one year or less.

Inventories

Inventories are valued at the lower of cost or current market value. Cost is determined using the average cost method (which approximates FIFO). Inventory costs include material, labor and factory overhead.

Property, Plant and Equipment

Property, plant and equipment are carried at cost, less accumulated depreciation. Major replacements and betterments are capitalized while routine maintenance and repairs are expensed as incurred. Assets are depreciated under both accelerated and straight-line methods. Depreciation charged to earnings as a result of using accelerated methods was not materially different than that which would result from using the straight-line method for all periods presented. Certain factory equipment and fixtures are constructed by the Company using purchased materials and in-house labor. Such assets are capitalized and depreciated on a basis consistent with the Company's purchased fixed assets.

Estimated useful lives are as follows:

Factory equipment and fixtures	5 - 7 years
Building	40 years
Building improvements	Lesser of useful life or 20 years
Waste disposal plant	7 years

Processes and Patents

Processes and patents are amortized over periods ranging from 5 to 15 years. Amounts are shown net of accumulated amortization.

Long-Lived Assets

It is the Company's policy to evaluate and recognize an impairment to its long-lived assets if it is probable that the recorded amounts are in excess of anticipated undiscounted future cash flows.

NOTE A (continued)

Fair Value of Financial Instruments

The Company has estimated the fair value of financial instruments using available market information and other valuation methodologies in accordance with SFAS No. 107, "Disclosures About Fair Value of Financial Instruments." Management of the Company believes that the fair value of financial instruments, consisting of accounts receivable and payable and long-term debt, approximates carrying value due to the short payment terms associated with its accounts receivable and payable and the interest rates associated with its long-term debt.

Concentration of Credit Risk

Accounts receivable potentially expose the Company to concentrations of credit risk. The Company routinely addresses the financial strength of its customers and, as a consequence, believes that its receivable credit risk exposure is limited. At December 31, 2001 and 2000, one and three customers, respectively, had balances greater than 10% of the Company's accounts receivable aggregating 12% and 38%, respectively.

Income Taxes

Deferred tax assets and liabilities reflect the future tax consequences of the differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Research and Development

The Company's research and development expenses are recorded in the year incurred. Research and development expenses were approximately $334,000 and $294,000 for the years ended December 31, 2001 and 2000, respectively.

Shipping and Handling Costs

Shipping and handling costs are classified in operating expense in the accompanying consolidated statements of earnings. Shipping and handling costs were approximately $105,937 and $120,581 for the years ended December 31, 2001 and 2000, respectively.

Advertising Costs

Advertising costs are expensed as incurred. During 2001 and 2000 the Company incurred $91,527 and $111,480 of advertising costs, respectively.

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NOTE A (continued)

Earnings Per Share Information

Basic earnings per share is based on the weighted average number of common shares outstanding without consideration of potential common stock. Diluted earnings per share is based on the weighted average number of common and potential common shares outstanding. The calculation takes into account the shares that may be issued upon exercise of stock options, reduced by the shares that may be repurchased with the funds received from the exercise, based on the average price during the year.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Segment Reporting

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures About Segments of an Enterprise and Related Information," for the year ended December 31, 1998. SFAS No. 131 requires that the Company disclose certain information about its business segments defined as "components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance."

New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"), which is effective for years beginning after June 15, 2002. SFAS 143 addresses legal obligations associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development or normal operation of a long-lived asset. The standard requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. Any associated asset retirement costs are to be capitalized as part of the carrying amount of the long-lived asset and expensed over the life of the asset. The Company has elected to adopt SFAS 143 for the year

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beginning January 1, 2002. The impact of adopting SFAS 143 is not expected to be material to the consolidated financial statements.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), which is effective for fiscal years beginning after December 15, 2001. SFAS 144 clarifies accounting and reporting for assets held for sale, scheduled for abandonment or other disposal, and recognition of impairment loss related to the carrying value of long-lived assets. The Company has elected to adopt SFAS 144 for the year beginning January 1, 2002. The impact of adopting SFAS 144 is not expected to be material to the consolidated financial statements.

NOTE B - INVENTORIES

Inventories consist of the following:

	December 31, 2001	December 31, 2000
Raw materials and work-in-process	$ 245,849	$ 261,891
Finished products and fine chemicals ...	939,686	1,202,673
	$1,185,535	$1,464,564

NOTE C - NOTES PAYABLE - BANKS

The Company has a line of credit agreement with one bank which provides for borrowings of up to $700,000 and expires on May 31, 2002. It is the Company's intention to renew the line of credit agreement before it expires. Interest under the line is at the bank's prime rate plus 1/2%. The outstanding line of credit agreement contains financial covenants relating to minimum net worth, working capital, current ratio, debt to capitalization and maintenance of compensating balances. There were no outstanding borrowings at December 31, 2001 and 2000.

NOTE D - LONG-TERM DEBT

The Company financed the purchase of transportation equipment with proceeds of an installment loan. The loan, which was collateralized by the underlying equipment, required monthly payments of $868 including interest through July 31, 2001. In July, 2001 this loan was paid in full.

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NOTE E - INCOME TAXES

The provision for income taxes consists of the following:

	Year ended December 31, 2001	Year ended December 31, 2000
Current		
Federal	$ 864,568	$1,150,997
State	122,952	201,917
	987,520	1,352,914
Deferred		
Federal	(40,237)	(34,452)
State	(6,228)	(5,330)
	(46,465)	(39,782)
Total provision	$ 941,055	$1,313,132

The following is a reconciliation of the Company's effective income tax rate to the Federal statutory rate:

	Year ended December 31, 2001		Year ended December 31, 2000	
	(000's)	%	((000's)	%
Tax expense at statutory Federal income tax rate	$ 963	34%	$1,145	34%
State income taxes, net of Federal benefit	87	3	130	4
Foreign Sales Exclusion	(77)	(3)	-	-
Nondeductible expenses	2	-	1	-
Other, net	(34)	(1)	37	1
Actual tax expense	$ 941	33%	$1,313	39%

During the fourth quarter of 2001, the Company recognized the tax benefit of the Foreign Sales exclusion.

The tax effects of temporary differences which comprise the deferred tax assets and liabilities are as follows:

<PAGE>

NOTE E (continued)

	December 31, 2001	December 31, 2000
Deferred tax assets		
Accounts receivable	$ 23,536	$ 17,643
Unrealized loss on marketable securities	10,618	1,947
Inventories	136,518	149,946
Accrued Expenses	87,643	44,760
Other	21,509	10,392
	279,824	224,688
Deferred tax liabilities		
Other	(10,000)	(10,000)
	(10,000)	(10,000)
Net deferred tax asset	$ 269,824	$ 214,688

NOTE F - BENEFIT PLANS

Pension Plan

The Company has a noncontributory defined benefit pension plan which covers substantially all of its employees. Benefits are based on years of service and employees' compensation prior to retirement. Amounts are funded in accordance with the requirements of ERISA (Employee Retirement Income Security Act of 1974) and the plan is administered by a trustee who is responsible for payments to retirees. The plan assets primarily consist of cash equivalents, bonds, commercial paper and mortgage-backed securities, and are recorded at fair value within the plan.

The following table sets forth the plan's funded status:

	Year ended December 31, 2001	Year ended December 31, 2000
Change in Benefit Obligation:		
Projected benefit obligation at beginning of year	$1,652,931	$1,495,013
Service cost	66,920	62,133
Interest cost	106,558	96,113
Actuarial loss	114,089	64,452
Other	21,525	-
Benefits paid	(52,924)	(64,780)
Projected benefit obligation at end of year	$1,909,099	$1,652,931

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NOTE F (continued)

Change in Plan Assets:		
Fair value of plan assets at beginning of year...	$1,310,433	$1,178,904
Actual return on plan assets.....	199,676	120,630
Employer contributions.....	101,960	75 679
Benefits paid.....	(52,924)	(64,780)
Fair value of plan assets at end of year.....	$1,559,145	$1,310,433
Reconciliation of Funded Status:		
Funded status (underfunded).....	$ (349,955)	$ (342,498)
Unrecognized net actuarial loss.....	332,734	328,305
Unrecognized transition obligation.....	4,298	8,795
Unrecognized prior service cost.....	68,156	51,917
Prepaid benefit cost.....	$ 55,233	$ 46,519

The net periodic benefit cost for the years ending December 31 includes the following components:

	December 31, 2001	December 31, 2000
Components of net periodic benefit cost:		
Service cost.....	$ 66,920	$ 62,133
Interest cost.....	106,558	96,113
Expected return on plan assets.....	(104,999)	(93,405)
Recognized net actuarial loss.....	14,983	13,853
Amortization of transition obligation.....	4,497	4,497
Amortization of prior service cost.....	5,286	5,286
Net periodic benefit cost.....	$ 93,245	$ 88,477

Weighted-average assumptions as of December 31:

	2001	2000
Discount rate.....	6.50%	6.50%
Expected long term rate of return.....	8.00%	8.00%
Weighted average rate of compensation increase.....	5.46%	5.55%
Amortization method.....	Straight-Line	Straight-Line

401(k) Plan

The Company maintains a 401(k) Plan for all of its employees. Under the plan, employees may defer up to 15% of their weekly pay as a

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NOTE F (continued)

pretax investment in a savings plan. In addition, the Company makes a contribution of 50% of each employee's elective deferral up to 2% of weekly pay for a 4% employee deferral. Employees become fully vested in Company contributions after one year of employment. 401(k) Company contributions were approximately $36,000 for the years ended December 31, 2001 and 2000, respectively.

Stock Option Plans

The Company maintains two stock option plans, the 1993 Employee Incentive Stock Option Plan ("EISOP") and the Non-Statutory Stock Option Plan for Directors ("NSSOPD"), each of which provides for the issuance of up to 100,000 shares of common stock. Such options are exercisable either upon grant or after a waiting period specified in the agreement. The Company has adopted only the disclosure provisions of SFAS No. 123, "Accounting for Stock-based Compensation." It applies APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations in accounting for its plans. Accordingly, no compensation costs have been recognized for either plan.

If the Company had elected to recognize compensation expense based upon the fair value at the grant date for awards under these plans consistent with the methodology prescribed by SFAS No. 123, the Company's net income and basic and diluted earnings per share as of December 31, 2001 and 2000 would be reduced to the pro forma amounts indicated below:

	2001	2000
Net income		
As reported	$ 1,891,010	$ 2,053,373
Pro forma	1,891,010	2,050,705
Earnings per share - basic		
As reported	$ .39	$ .42
Pro forma	.39	.42
Earnings per share - diluted		
As reported	$ .39	$ .42
Pro forma	.39	.42

No stock options were granted under either of the plans in 2001 and 2000.

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NOTE F (continued)

The following summarizes the stock option transactions under both plans:

EISOP	Number outstanding	Weighted average exercise price
Options outstanding January 1, 2000	65,100	$ 3.34
Exercised	(9,800)	2.76
Options outstanding an exercisable at December 31, 2000	55,300	3.44
Expired	(400)	3.00
Exercised	(23,500)	3.26
Options outstanding and exercisable at December 31, 2001	31,400	3.59
Available for grant at December 31, 2001..	20,100	
NSSOPD		
Options outstanding at January 1, 2000..	18,000	$2.49
Exercised	(2,000)	2.06
Options outstanding at December 31, 2000	16,000	2.55
Exercised	(8,000)	2.20
Options outstanding and exercisable at December 31, 2001	8,000	2.77
Available for grant at December 31, 2001	64,000	

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NOTE F (continued)

Summarized information about stock options outstanding under the two plans at December 31, 2001 is as follows:

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	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at December 31,2001	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at December 31,2001	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>
EISOP					
$1.88 - $3.30	18,900	6.06	$2.65	18,900	$2.65
$5.00	12,500	1.92	5.00	12,500	5.00
$1.88 - $5.00	31,400	5.25	$3.45	31,400	$3.45
NSSOPD					
$1.88 - $3.00	8,000	1.78	$2.77	8,000	$2.77

</TABLE>

NOTE G - RELATED PARTY TRANSACTION

The Company previously had a split dollar life insurance arrangement with Alfred R. Globus, its Chairman and Chief Executive Officer ("Insured"). For fiscal years 1995 through 1998 Company made non-interest-bearing advances totaling $348,161 to cover its portion of the policy premium. The Insured had agreed to repay the Company in the event the policy was ever terminated, which it was in July, 2000. In August, 2000 the Insured executed a Promissory Note in the amount of $348,161 plus interest at the rate of 6.6% per annum from July 8, 2000. The note was due and payable on July 8, 2003. In 2000 the Insured paid to the Company $205,000 by transferring to the Company 40,000 shares of his stock of the Company, which was valued at $5.125 per share, the closing price on the date of the transfer of the stock. Of this amount, $4,155 was applied to accrued interest, and $200,845 to principal, leaving an outstanding balance as of December 31, 2000 of $147,316 in principal and $2,930 in accrued interest. In April, 2001 the Insured transferred to the Company another 20,000 shares of his stock of the Company. The closing price of the stock on the day of the transfer was $7.11 per

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share. $136,180 of this amount was applied towards principal, and $6,020 towards accrued interest. In May, 2001 the Insured transferred to the Company another 2,200 shares of his stock of the Company. The closing price of the stock on the day of the transfer was $5.65 per share. $11,136 dollars of this amount was applied towards principal, and $42 was applied towards accrued interest. This final transfer paid off the balance due on the promissory note. An overpayment of $1,252 was returned to the Insured. The surrendered shares and the related cost of those shares have been classified as "Treasury stock" in the accompanying balance sheet.

NOTE H - EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share at December 31, 2001 and 2000:

	2001	2000
Numerator:		
Net earnings	$ 1,891,010	$ 2,053,373
Denominator:		
Denominator for basic earnings per share (weighted average shares)	4,868,215	4,884,439
Effect of dilutive securities: Employee stock options	18,554	25,449
Denominator for diluted earnings per share (adjusted weighted-average shares) and assumed conversions	4,886,769	4,909,888
Basic and diluted earnings per share	$ 0.39	$ 0.42

Options to purchase 21,000 shares of the Company's common stock have been excluded from the computation of diluted earnings per share in 2000 as their inclusion would be antidilutive. In 2001 there were no options excluded from the computation of diluted earnings per share.

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NOTE I - NATURE OF BUSINESS AND SEGMENT INFORMATION

The Company has the following two reportable business segments: Guardian Laboratories and Eastern Chemical. The Guardian segment conducts research, development and manufacturing of pharmaceuticals, medical devices, cosmetics, products and proprietary specialty chemical products. The Eastern segment distributes fine chemicals, solutions, dyes and reagents.

The accounting policies used to develop segment information correspond to those described in the summary of significant accounting policies. Segment earnings or loss is based on earnings or loss from operations before income taxes. The reportable segments are distinct business units operating in different industries. They are separately managed, with separate marketing and distribution systems. The following information about the two segments is for the years ended December 31, 2001 and 2000.

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	2001			2000		
	GUARDIAN	EASTERN	TOTAL	GUARDIAN	EASTERN	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues from external customers	$ 8,151,156	$ 1,432,526	$ 9,583,682	$ 8,937,634	$ 1,509,740	$10,447,374
Depreciation and amortization	157,927	-	157,927	160,080	-	160,080
Segment earnings (loss) before income taxes	2,712,132	44,625	2,756,757	3,258,271	50,795	3,309,066
Segment assets	2,350,585	426,830	2,777,415	2,898,447	492,755	3,391,202
Expenditure for segment assets	49,441	-	49,441	121,936	-	121,936
Reconciliation to Consolidated Amounts						
Earnings before income taxes						
Total earnings for reportable segments			$ 2,756,757			$ 3,309,066
Other income, net			239,075			237,608
Corporate headquarters expense			(163,767)			(180,169)
Consolidated earnings before income taxes			$ 2,832,065			$ 3,366,505
Assets						
Total assets for reportable segments			$ 2,777,415			$ 3,391,202
Corporate headquarters			8,004,138			6,006,193
Total consolidated assets			$10,781,553			$ 9,397,395

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NOTE I (continued)

<TABLE>
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Other Significant Items

	2001			2000		
	Segment Totals	Corporate	Consolidated Totals	Segment Totals	Corporate	Consolidated Totals
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Interest expense	$ -	$ 38	$ 38	$ -	$ 536	$ 536
Expenditures for assets	49,441	123,695	173,136	121,936	24,573	146,509
Depreciation and amortization	157,927	117,374	275,301	160,080	135,187	295,267

</TABLE>

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Geographic Information

	2001		2000	
	Revenues	Long-Lived Assets	Revenues	Long-Lived Assets
<S>	<C>	<C>	<C>	<C>
United States	$ 5,112,528	$ 1,233,563	$ 5,934,842	$ 1,354,530
France	1,221,664		1,440,462	
Other countries	3,249,490		3,072,070	
	$ 9,583,682	$ 1,233,563	$10,447,374	$ 1,354,530
Major Customers				
Customer A (Guardian)	$ 3,111,665		$ 3,244,400	
Customer B (Guardian)	-		1,283,504	
All other customers	6,472,017		5,919,470	
	$ 9,583,682		$10,447,374	

</TABLE>

NOTE J - CONTINGENCIES

While the Company has claims arise from time to time in the ordinary course of its business, the Company is not currently involved in any material claims. The settlement of such claims has not had a material adverse effect on the Company's financial position and results of operations.