

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

FORM 10-QSB

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2001

☐ **TRANSITION REPORT PURSUANT TO 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.

(Exact Name of Small Business Issuer as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

11-1719724
(I.R.S. Employer Identification No.)

230 Marcus Boulevard, Hauppauge, New York 11788
(Address of Principal Executive Offices)

(631) 273-0900
(Issuer's Telephone Number, Including Area Code)

(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(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

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS
DURING THE PRECEDING FIVE YEARS**

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court.

Yes X No

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 4,888,739

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UNITED-GUARDIAN, INC.
CONSOLIDATED STATEMENTS OF EARNINGS
(UNAUDITED)

| | THREE MONTHS ENDED MARCH 31, | |
|--|---------------------------------|--------------|
| | 2001 ---- | 2000 ---- |
| Net sales | \$ 2,829,845 | \$ 2,913,349 |
| | ----- | ----- |
| Costs and expenses: | | |
| Cost of sales | 1,297,714 | 1,471,085 |
| Selling, general and administrative | 581,999 | 487,865 |
| | ----- | ----- |
| | 1,879,713 | 1,958,950 |
| | ----- | ----- |
| Earnings from operations | 950,132 | 954,399 |
| Other income (expense): | | |
| Interest expense | (25) | (73) |
| Investment income | 66,009 | 39,451 |
| | ----- | ----- |
| Earnings before income taxes | 1,016 116 | 993,777 |
| Provision for income taxes | 380,000 | 370,700 |
| | ----- | ----- |
| Net earnings | \$ 636,116 | \$ 623,077 |
| | ===== | ===== |
| Earnings per common share (Basic and diluted) | \$.13 | \$.13 |
| | ===== | ===== |
| Basic weighted average shares | 4,863,140 | 4,890,258 |
| | ===== | ===== |
| Diluted weighted average shares | 4,888,777 | 4,917,903 |
| | ===== | ===== |

See notes to financial statements.

UNITED-GUARDIAN, INC.
CONSOLIDATED BALANCE SHEETS

| | MARCH 31, 2001 | DECEMBER 31, 2000 |
|--|----------------------|----------------------|
| | ----- (UNAUDITED) | ----- |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 2,007,593 | \$ 2,226,812 |
| Temporary investments | 3,271,825 | 2,736,886 |
| Marketable securities | 241,962 | 270,924 |
| Accounts receivable, (net of allowance for doubtful accounts of \$47,300 at March 31, 2001 and December 31, 2000 | 1,149,905 | 801,070 |
| Inventories | 1,324,912 | 1,464,564 |
| Prepaid expenses and other current assets | 155,833 | 169,605 |
| Deferred income taxes | 235,788 | 224,688 |
| | ----- | ----- |
| Total current assets | 8,387,818 | 7,894,549 |
| | ----- | ----- |
| Property, plant and equipment: | | |
| Land | 69,000 | 69,000 |
| Factory equipment and fixtures | 2,616,825 | 2,613,203 |
| Building and improvements | 2,012,928 | 1,985,342 |
| Waste disposal plant | 133,532 | 133,532 |
| | ----- | ----- |
| | 4,832,285 | 4,801,077 |
| Less: Accumulated depreciation | 3,586,600 | 3,533,542 |
| | ----- | ----- |
| | 1,245,685 | 1,267,535 |
| | ----- | ----- |
| Other assets: | | |
| Processes and patents, net of amortization of \$907,763 and \$894,802 at March 31, 2001 and December 31, 2000, respectively | 74,034 | 86,995 |
| Notes receivable-officer | 147,316 | 147,316 |
| Other | 1,000 | 1,000 |
| | ----- | ----- |
| | 222,350 | 235,311 |
| | ----- | ----- |
| | \$ 9,855,853 | \$ 9,397,395 |
| | ===== | ===== |

See notes to financial statements.

UNITED-GUARDIAN, INC.
CONSOLIDATED BALANCE SHEETS

| | MARCH 31, 2001 | DECEMBER 31, 2000 |
|--|----------------------|----------------------|
| | ----- (UNAUDITED) | ----- |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Dividends payable | \$ -- | \$ 486,114 |
| Accounts payable | 235,773 | 178,035 |
| Accrued expenses | 273,950 | 262,120 |
| Taxes payable | 329,974 | 79,450 |
| Current portion of long-term debt | 3,457 | 6,036 |
| | ----- | ----- |
| Total current liabilities | 843,154 | 1,011,755 |
| | ----- | ----- |
| Deferred income taxes | 10,000 | 10,000 |
| | ----- | ----- |
| Stockholders' equity: | | |
| Common stock \$.10 par value, authorized 10,000,000 shares; issued, 4,905,839 and 4,901,139 shares, respectively; outstanding, 4,865,839 and 4,861,139 shares, respectively | 490,584 | 490,114 |
| Capital in excess of par value | 3,382,548 | 3,373,417 |
| Accumulated other comprehensive loss | (21,932) | (3,274) |
| Retained earnings | 5,356,499 | 4,720,383 |
| Treasury stock, at cost; 40,000 shares | (205,000) | (205,000) |
| | ----- | ----- |
| Total stockholders' equity | 9,002,699 | 8,375,640 |
| | ----- | ----- |
| | \$ 9,855,853 | \$ 9,397,395 |
| | ===== | ===== |

See notes to financial statements.

UNITED-GUARDIAN, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| | THREE MONTHS ENDED MARCH 31, ----- | |
|---|--|--------------|
| | 2001 ---- | 2000 ---- |
| Cash flows from operating activities: | | |
| Net earnings | \$ 636,116 | \$ 623,077 |
| Adjustments to reconcile net earnings to net cash flows provided by operations: | | |
| Depreciation and amortization | 66,019 | 77,170 |
| (Increase) decrease in assets: | | |
| Accounts receivable | (348,835) | (479,521) |
| Inventories | 139,652 | 214,858 |
| Prepaid expenses and other current assets | 13,772 | 482 |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 57,738 | (38,908) |
| Accrued expenses and taxes payable | 262,354 | 277,784 |
| | ----- | ----- |
| Net cash provided by operating activities | 826,816 | 674,942 |
| | ----- | ----- |
| Cash flows from investing activities: | | |
| Acquisition of property, plant and equipment | (31,208) | (62,466) |
| Net change in temporary investments | (534,939) | (229,200) |
| Purchase of marketable securities | (796) | (1,096) |
| | ----- | ----- |
| Net cash used in investing activities | (566,943) | (292,762) |
| | ----- | ----- |
| Cash flows from financing activities: | | |
| Principal payments on long-term debt | (2,579) | (2,530) |
| Proceeds from exercise of stock options | 9,601 | 12,337 |
| Dividends paid | (486,114) | (391,131) |
| | ----- | ----- |
| Net cash used in financing activities | (479,092) | (381,324) |
| | ----- | ----- |
| Net (decrease) increase in cash and and cash equivalents | (219,219) | 856 |
| Cash and cash equivalents at beginning of period | 2,226,812 | 2,014,556 |
| | ----- | ----- |
| Cash and cash equivalents at end of period | \$ 2,007,593 | \$2,015,412 |
| | ===== | ===== |

See notes to financial statements.

UNITED-GUARDIAN, INC.
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

1. In the opinion of the Company, the accompanying unaudited financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of March 31, 2001 and the results of operations and cash flows for the three months ended March 31, 2001 and 2000. The accounting policies followed by the Company are set forth in the Company's financial statements included in the December 31, 2000 Annual Report.

2. The results of operations for the three months ended March 31, 2001 and 2000 are not necessarily indicative of the results to be expected for the full year.

3. Inventories

| Inventories consist of the following: | March 31, 2001 | December 31, 2000 |
|--|-------------------|----------------------|
| | ----- | ----- |
| Raw materials and work-in-process..... | \$ 281,597 | \$ 261,891 |
| Finished products and fine chemicals | 1,043,315 | 1,202,673 |
| | ----- | ----- |
| | \$1,324 912 | \$1,464,564 |
| | ===== | ===== |

4. For purposes of the Statement of Cash Flows, the Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Cash payments for interest were \$25 and \$73 for the three months ended March 31, 2001 and March 31, 2000, respectively.

Cash payments for income taxes were \$129,476 and \$51,818 for the three months ended March 31, 2001 and March 31, 2000, respectively.

5. Comprehensive Income

The components of comprehensive income are as follows:

| | The three months ended March 31, | |
|-------------------------------|-------------------------------------|------------|
| | 2001 | 2000 |
| | ----- | ----- |
| Net income | \$ 636,116 | \$ 623,077 |
| | ----- | ----- |
| Other comprehensive income | | |
| Unrealized (loss) gain on | | |
| marketable securities | (29,758) | 9,833 |
| | ----- | ----- |
| Net unrealized (loss)gain | (29,758) | 9,833 |
| | ----- | ----- |
| Income tax(benefit)expense on | | |
| comprehensive income | (11,100) | 3,734 |
| | ----- | ----- |

| | | |
|----------------------------|------------|------------|
| Other comprehensive (loss) | | |
| income | (18,658) | 6,099 |
| | ----- | ----- |
| Comprehensive income | \$ 617,458 | \$ 629,176 |
| | ===== | ===== |

Accumulated other comprehensive income is comprised of unrealized gains and losses on marketable securities, net of the related tax effect.

6. Earnings per share

The following table sets forth the computation of basic and diluted earnings per share at March 31, 2001 and 1999.

| | 2001 | 2000 |
|---|------------|------------|
| | ===== | ===== |
| Numerator: | | |
| Net income | \$ 636,116 | \$ 623,077 |
| | ===== | ===== |
| Denominator for basic earnings per share (weighted average shares) | 4,863,140 | 4,890,258 |
| Effect of dilutive securities: | | |
| Employee stock options | 25,637 | 27,645 |
| | ----- | ----- |
| Denominator for diluted earnings per share (adjusted weighted-average shares) and assumed conversions | 4,888,777 | 4,917,903 |
| | ===== | ===== |
| Basic and diluted earnings per share | \$ 0.13 | \$ 0.13 |
| | ===== | ===== |

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.

7. 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 beginning July 8, 2000. The note is due in full 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 March 31, 2001 of \$147,316. This method of repayment was approved by the Board of Directors of the Registrant. The cost of the surrendered stock has been classified as "Treasury stock" in the accompanying balance sheet.

8. 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 as set forth in the December 31, 2000 Annual Report. 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 three months ended March 31, 2001 and 2000:

| | 2001 | | | 2000 | | |
|--------------------------------------|--------------|------------|--------------|--------------|------------|--------------|
| | GUARDIAN | EASTERN | TOTAL | GUARDIAN | EASTERN | TOTAL |
| Earnings from external customers | \$ 2,438,437 | \$ 391,408 | \$ 2,829,845 | \$ 2,463,441 | \$ 449,908 | \$ 2,913,349 |
| Depreciation and amortization | 37,937 | - | 37,937 | 42,594 | - | 42,594 |
| Segment earnings before income taxes | 975,017 | 13,128 | 988,145 | 939,618 | 58,607 | 998,225 |
| Segment assets | 2,913,212 | 382,296 | 3,295,508 | 2,673,727 | 536,158 | 3,209,885 |
| Expenditure for segment assets | 3,685 | - | 3,685 | 52,466 | - | 52,466 |

Reconciliation to Consolidated Amounts

Earnings before income taxes

| | | |
|---|-------------|------------|
| Total earnings for reportable segments | \$ 988,145 | \$ 998,225 |
| Other earnings | 65,984 | 39,378 |
| Corporate headquarters expense | (38,013) | (43,826) |
| Consolidated earnings before income taxes | \$1,016,116 | \$ 993,777 |

Assets

| | | |
|--------------------------------------|--------------|--------------|
| Total assets for reportable segments | \$ 3,295,508 | \$ 3,209,885 |
| Corporate headquarters | 6,560,345 | 5,171,767 |
| Total consolidated assets | \$ 9,855,853 | \$ 8,381,652 |

Other Significant Items

| | 2001 | | | 2000 | | |
|-------------------------------|----------------|-----------|---------------------|----------------|-----------|---------------------|
| | Segment Totals | Corporate | Consolidated Totals | Segment Totals | Corporate | Consolidated Totals |
| Interest expense | \$ - | \$ 25 | \$ 25 | \$ - | \$ 73 | \$ 73 |
| Expenditures for assets | 3,685 | 27,523 | 31,208 | 52,466 | 10,000 | 62,466 |
| Depreciation and amortization | 37,937 | 28,082 | 66,019 | 42,592 | 34,578 | 77,170 |

Geographic Information

| | 2001 | | 2000 | |
|-----------------|--------------|-------------------|--------------|-------------------|
| | Revenues | Long-Lived Assets | Revenues | Long-Lived Assets |
| United States | \$ 1,311,231 | \$ 1,319,719 | \$ 1,339,222 | \$ 1,488,584 |
| France | 592,864 | | 686,022 | |
| Other countries | 925,750 | | 888,105 | |
| | \$ 2,829,845 | \$ 1,319,719 | \$ 2,913,349 | \$ 1,488,584 |

Major Customers

| | | |
|-----------------------|--------------|--------------|
| Customer A (Guardian) | \$ 999,805 | \$ 706,719 |
| Customer B (Guardian) | 506,819 | 662,267 |
| All other customers | 1,323,221 | 1,544,363 |
| | ----- | ----- |
| | \$ 2,829,845 | \$ 2,913,349 |
| | ===== | ===== |

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Gross revenue from operations

For the three month period ended March 31, 2001 net sales decreased \$83,504 (2.9%) versus the comparable period in 2000. The Guardian Laboratories division ("Guardian") had a sales decrease of \$25,004 (1%). The Eastern Chemical subsidiary ("Eastern") had a sales decrease of \$58,500 (13%). The decrease in both Guardian's and Eastern's sales was mainly due to normal fluctuations in the purchasing patterns of their customers.

Cost of sales

Cost of sales as a percentage of net sales decreased from 50.5% for the three months ended March 31, 2000 to 45.9% in the comparable period in 2001. The decrease was mainly due to an efficiency in overhead absorption created by an increase in production during the three months ending March 31, 2001 compared to the three months ended March 31, 2000.

Operating expense

Operating expenses increased \$94,134 (19.3%) in the three months ended March 31, 2001 when compared to the comparable period in 2000. This increase was mainly due to increases in payroll and payroll related costs.

Investment income

Investment income increased \$26,558 (67.3%) for the three months ended March 31, 2001 when compared to the comparable period in 2000. This increase is primarily due to an increase in temporary investments.

Provision for income taxes

The provision for income taxes increased from \$370,700 for the three months ended March 31, 2000 to \$380,000 for the comparable period in 2001. This increase is mainly due to the increase in earnings before income taxes of \$22,339 (2.2%) between years. The Company's effective rate of 37% remained unchanged for both periods.

LIQUIDITY AND CAPITAL RESOURCES

Working capital increased from \$6,882,794 at December 31, 2000 to \$7,544,664 at March 31, 2001. The current ratio increased from 7.8 to 1 at December 31, 2000 to 9.9 to 1 at March 31, 2001. The increase in working capital is primarily due to increases in cash provided by operations. The Company believes that its working capital is and will continue to be sufficient to support its operating requirements and its need for capital expenditures.

Cash flows provided by operating activities increased \$151,874 (22.5%) for the three months ended March 31, 2001 when compared to the comparable period in 2000. This increase is mainly due to less of an increase in outstanding receivables at March 31, 2001 as compared to March 31, 2000.

Cash flows used in investing activities increased \$274,181 (93.7%) for the three months ended March 31, 2001 when compared to the comparable period in 2000. This increase is mainly due to an increase in temporary investments.

Cash flows used in financing activities increased \$97,768 (25.6%) in the three months ended March 31, 2001 when compared to the comparable period in 2000. This increase is primarily due to the increase in cash dividends paid.

PART II - OTHER INFORMATION

Item 6 (b) Exhibits and Reports on Form 8-K

a. Exhibits: None

b. Reports on Form 8-K: None

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNITED-GUARDIAN, INC.
(Registrant)

By: _____
Alfred R. Globus
Chief Executive Officer

By: _____
Kenneth H. Globus
Chief Financial Officer

Date: May 11, 2001