

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 June 30, 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 ____ 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:

4,870,439

UNITED-GUARDIAN, INC.

INDEX

	Page No. -----
Part I. Financial Information:	
Consolidated Statements of Earnings - Three and Six Months Ended June 30, 2001 and 2000	2
Consolidated Balance Sheets - June 30, 2001 and December 31, 2000	3-4
Consolidated Statements of Cash Flows - Six Months Ended June 30, 2001 and 2000	5
Consolidated Notes to Financial Statements	6-9
Management's Discussion and Analysis of Financial Condition and Results of Operations	9-10
Part II. Other Information	11

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

	SIX MONTHS ENDED JUNE 30,		THREE MONTHS ENDED JUNE 30,	
	2001	2000	2001	2000
	----	----	----	----
Revenue:				
Net sales	\$ 5,423,800	\$ 5,853,810	\$ 2,593,955	\$ 2,940,461
	-----	-----	-----	-----
Costs and expenses:				
Cost of sales	2,621,552	2,874,747	1,323,838	1,403,662
Selling, general and administrative	1,211,838	1,126,143	629,839	638,278
	-----	-----	-----	-----
	3,833,390	4,000,890	1,953,677	2,041,940
	-----	-----	-----	-----
Earnings from operations	1,590,410	1,852,920	640,278	898,521
Other income (expense):				
Interest expense	(37)	(134)	(12)	(61)
Investment income	131,745	91,088	65,736	51,637
	-----	-----	-----	-----
Earnings before income taxes	1,722,118	1,943,874	706,002	950,097
Provision for income taxes	642,740	725,500	262,740	354,800
	-----	-----	-----	-----
Net earnings	\$ 1,079,378	\$ 1,218,374	\$ 443,262	\$ 595,297
	=====	=====	=====	=====
Earnings per common share - (basic and diluted)	\$ 0.22	\$ 0.25	\$ 0.09	\$ 0.12
	=====	=====	=====	=====
Basic weighted average shares	4,866,162	4,892,934	4,869,151	4,895,609
	=====	=====	=====	=====
Diluted weighted average shares	4,889,214	4,920,646	4,889,910	4,923,387
	=====	=====	=====	=====

See notes to financial statements

UNITED-GUARDIAN, INC.
CONSOLIDATED BALANCE SHEETS

	JUNE 30, 2001	DECEMBER 31, 2000
ASSETS	(UNAUDITED)	(DERIVED FROM AUDITED FINANCIAL STATEMENTS)
Current assets:		
Cash and cash equivalents	\$ 919,976	\$ 2,226,812
Temporary investments	3,883,154	2,736,886
Marketable securities	907,291	270,924
Accounts receivable, net of allowance for doubtful accounts of \$46,700 and \$47,300 at June 30, 2001 and December 31, 2000, respectively	1,298,104	801,070
Inventories	1,198,803	1,464,564
Prepaid expenses and other current assets	321,018	169,605
Deferred income taxes	230,641	224,688
Total current assets	8,758,987	7,894,549
Property, plant and equipment:		
Land	69,000	69,000
Factory equipment and fixtures	2,656,623	2,613,203
Building and improvements	2,019,340	1,985,342
Waste disposal plant	133,532	133,532
	4,878,495	4,801,077
Less: Accumulated depreciation	3,641,582	3,533,542
	1,236,913	1,267,535
Other assets:		
Processes and patents, net of accumulated amortization of \$920,725 and \$894,802 at June 30, 2001 and December 31, 2000, respectively	61,072	86,995
Note receivable - officer	-	147,316
Other	1,000	1,000
	62,072	235,311
	\$ 10,057,972	\$ 9,397,395

See notes to financial statements

UNITED-GUARDIAN, INC.
CONSOLIDATED BALANCE SHEETS

	JUNE 30, 2001	DECEMBER 31, 2000
	----- (UNAUDITED)	----- (DERIVED FROM AUDITED FINANCIAL STATEMENTS)
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Dividends payable	\$ -	\$ 486,114
Accounts payable	196,674	178,035
Accrued expenses	471,036	262,120
Taxes payable	-	79,450
Current portion of long-term debt	866	6,036
	-----	-----
Total current liabilities	668,576	1,011,755
	-----	-----
Deferred income taxes	10,000	10,000
	-----	-----
Stockholders' equity:		
Common stock \$.10 par value, authorized, 10,000,000 shares; issued, 4,930,139 and 4,901,139 shares, respectively; outstanding 4,867,939 and 4,861,139 shares, respectively	493,014	490,114
Capital in excess of par value	3,459,549	3,373,417
Accumulated other comprehensive loss	(13,298)	(3,274)
Retained earnings	5,799,761	4,720,383
Treasury stock, at cost; 62,200 and 40,000 shares, respectively	(359,630)	(205,000)
	-----	-----
Total stockholders' equity	9,379,396	8,375,640
	-----	-----
	\$ 10,057,972	\$ 9,397,395
	=====	=====

See notes to financial statements

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

	SIX MONTHS ENDED JUNE 30,	
	2001	2000
Cash flows provided by operating activities:		
Net earnings	\$ 1,079,378	\$ 1,218,374
Adjustments to reconcile net earnings to net cash flows from operations:		
Depreciation and amortization	133,963	151,251
Provision for doubtful accounts	(600)	-
(Increase) decrease in assets:		
Accounts receivable	(496,434)	(65,750)
Inventories	265,761	240,600
Prepaid expense and other current assets	(158,727)	(23,944)
Increase (decrease) in liabilities:		
Accounts payable	18,639	(57,690)
Accrued expenses and taxes payable	129,466	165,924
Net cash provided by operating activities	971,446	1,628,765
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(77,418)	(97,555)
Net change in temporary investments	(1,146,268)	(953,490)
Purchase of marketable securities	(652,344)	(2,443)
Net cash used in investing activities	(1,876,030)	(1,053,488)
Cash flows from financing activities:		
Principal payments on long-term debt	(5,170)	(5,072)
Proceeds from exercise of stock options	89,032	24,881
Dividends paid	(486,114)	(391,131)
Net cash used in financing activities	(402,252)	(371,322)
Net (decrease) increase in cash and cash equivalents	(1,306,836)	203,955
Cash and cash equivalents at beginning of period	2,226,812	2,014,556
Cash and cash equivalents at end of period	\$ 919,976	\$ 2,218,511
	=====	=====

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 June 30, 2001 and December 31, 2000 and the results of operations and cash flows for the three and six months ended June 30, 2001 and 2000. The accounting policies followed by the Company are set forth in the Company's financial statements included in its December 31, 2000 Annual Report to Shareholders.

2. The results of operations for the three and six months ended June 30, 2001 and 2000 are not necessarily indicative of the results to be expected for the full year.

3. Inventories

Inventories consist of the following:	June 30 2001	December 31 2000
	-----	-----
Raw materials and work in process	\$ 254,692	\$ 261 891
Finished products and fine chemicals	944,111	1,202,673
	-----	-----
	\$1,198,803	\$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 \$37 and \$134 for the six months ended June 30, 2001 and 2000 respectively.

Cash payments for taxes were \$879,216 and \$730,687 for the six months ended June 30, 2001 and 2000 respectively.

5. Comprehensive Income

The components of comprehensive income are as follows:

	Six months ended June 30,		Three months ended June 30,	
	2001	2000	2001	2000
	-----	-----	-----	-----
Net income	\$1,079,378	\$1,218,374	\$443,262	\$595,297
	-----	-----	-----	-----
Other comprehensive income				
Unrealized gain (loss) on				
marketable securities	(15,977)	2,609	13,781	(7,224)
	-----	-----	-----	-----
Net unrealized gain (loss)	(15,977)	2,609	13,781	(7,224)
	-----	-----	-----	-----
Income tax expense (benefit) on				
comprehensive income	(5,953)	934	5,147	(2,800)
	-----	-----	-----	-----
Other comprehensive income (loss)	(10,024)	1,675	8,634	(4,424)
	-----	-----	-----	-----
Comprehensive income	\$1,069,354	\$1,220,049	\$451,896	\$590,873
	=====	=====	=====	=====

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 for the computation of basic and diluted earnings per share at June 30, 2001 and 2000.

	Six months ended June 30,		Three months ended June 30,	
	2001	2000	2001	2000
Numerator:				
Net income	\$1,079,378	\$1,218,374	\$ 443,262	\$ 595,297
Denominator:				
Denominator for basic earnings per share (weighted average shares)	4,866,162	4,892,934	4,869,151	4,895,609
Effect of dilutive securities :				
Employee stock options	23,052	27,712	20,759	27,778
Denominator for diluted earnings per share (adjusted weighted-average shares) and assumed conversions	4,889,214	4,920,646	4,889,910	4,923,387
Basic and diluted earnings per share	\$ 0.22	\$ 0.25	\$ 0.09	\$ 0.12

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. In August 2000 Alfred R. Globus ("Globus"), the Registrant's Chairman and Chief Executive Officer, executed a Promissory note in the amount of \$348,161 plus interest at the rate of 6.6% per annum, to repay advances made by the Registrant in fiscal years 1995 through 1998 in connection with a split dollar life insurance policy that was discontinued in July, 2000. Between September, 2000 and May, 2001 Globus transferred to the Registrant a total of 62,200 shares of his United-Guardian, Inc. stock, with a market value of \$359,630, to repay the Promissory Note. Of this amount, \$348,161 was applied to principal, \$10,218 to interest, and the remaining \$1,251 was returned to Globus as an overpayment. 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" on the accompanying balance sheet.

8. 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 six months ended June 30, 2001 and 2000.

	Six months ended June 30,					
	2001			2000		
	GUARDIAN	EASTERN	TOTAL	GUARDIAN	EASTERN	TOTAL
Revenues from external customers	\$ 4,690,069	\$ 733,731	\$ 5,423,800	\$ 5,020,389	\$ 833,421	\$ 5,853,810
Depreciation and amortization	77,205	-	77,205	83,513	-	83,513
Segment earnings before income taxes	1,662,230	11,749	1,673,979	1,867,382	80,506	1,947,888
Segment assets	2,591,687	411,745	3,003,432	2,452,040	459,530	2,911,570
Expenditures for segment assets	15,036	-	15,036	85,619	-	85,619
Reconciliation to Consolidated Amounts						
Earnings before income taxes						
Total earnings for reportable segments			1,673,979			1,947,888
Other earnings			131,708			90,954
Corporate headquarters expense			(83,569)			(94,968)
Consolidated earnings before income taxes			1,722,118			1,943,874
Assets						
Total assets for reportable segments			3,003,432			2,911,570
Corporate headquarters			7,054,540			5,940,315
Total consolidated assets			\$10,057,972			\$ 8,851,885

	Three months ended June 30,					
	2001			2000		
	GUARDIAN	EASTERN	TOTAL	GUARDIAN	EASTERN	TOTAL
Revenues from external customers	\$ 2,251,632	\$ 342,323	\$ 2,593,955	\$ 2,556,948	\$ 383,513	\$ 2,940,461
Segment earnings before income taxes	687,213	(1,379)	685,834	927,764	21,899	949,663
Earnings before income taxes						
Total earnings for reportable segments			685,834			949,663
Other earnings			65,724			51,576
Corporate headquarters expense			(45,556)			(51,142)
Consolidated earnings before income taxes			706,002			950,097

Other significant items

	Six months ended June 30,					
	2001			2000		
	Segment Totals	Corporate	Consolidated Totals	Segment Totals	Corporate	Consolidated Totals
Interest Expense	\$ -	\$ 37	\$ 37	\$ -	\$ 134	\$ 134
Expenditures for assets	15,036	62,382	77,418	85,619	11,936	97,555
Depreciation and amortization	77,205	56,758	133,963	83,513	67,738	151,251

Geographic Information

	2001		2000	
	Revenues	Long-Lived Assets	Revenues	Long-Lived Assets
United States	\$ 2,682,713	\$ 1,297,985	\$ 2,982,324	\$ 1,449,592
France	845,508		954,792	
Other countries	1,895,579		1,916,694	
	\$ 5,423,800	\$ 1,297,985	\$ 5,853,810	\$ 1,449,592

Major Customers

Customer A (Guardian)	\$ 1,893,243	\$ 1,060,834
Customer B (Guardian)	711,978	911,790
All other customers	2,818,579	3,881,186
-----		-----
	\$ 5,423,800	\$ 5,853,810
=====		=====

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

RESULTS OF OPERATIONS

Gross revenue from operations

For the six month period ended June 30, 2001 net sales decreased \$430,010 (7.3%) versus the comparable period in 2000. The Guardian Laboratories division ("Guardian") had a sales decrease of \$330,320 (6.6%) while the Eastern Chemical subsidiary ("Eastern") had a sales decrease of \$99,690 (12%).

For the three month period ended June 30, 2001, revenue decreased \$346,506 (11.8%) over the comparable period in 2000. Guardian sales decreased \$305,316 (11.9%), while Eastern sales decreased \$41,190 (10.7%).

The decrease in Guardian's sales was believed to be due in part to a slight decline in demand for Guardian's products resulting from the economic slowdown taking place in the United States, as well as to normal fluctuations in the purchasing patterns of its customers. The decline in Eastern's sales was mainly due to normal fluctuations in the purchasing patterns of its customers.

Cost of sales

Cost of sales as a percentage of sales decreased to 48.3% for the six months ended June 30, 2001 from 49.1% for the comparable period ended June 30, 2000. The decrease was mainly due to an increase in production for the first six months ending June 30, 2001 as compared to the six months ended June 30, 2000. For the three month period ended June 30, 2001 compared to the three month period June 30, 2000 the cost of sales as a percentage of sales increased to 51.0% from 47.7%. The increase was mainly due to a decrease in production during the three month period ended June 30, 2001 as compared to the three month period ended June 30, 2000.

Operating Expenses

Operating expenses increased \$85,695 (7.6%) in the six months ended June 30, 2001 compared to the comparable period in 2000. For the three months ended June 30, 2001 operating expenses decreased \$8,439

(1.3%) over the comparable period in 2000. These increases and decreases were primarily due to changes in payroll related costs for the six and three month period ended June 30, 2001 as compared to the six and three month period ended June 30, 2000.

Investment income

Investment income increased \$40,657 (44.6%) for the six months ended June 30, 2001 as compared to the comparable period in 2000, and \$14,099 (27.3%) for the three months ended June 30, 2001 as compared to the comparable period in 2000. These increases are primarily due to an increase in temporary investments.

Provision for income taxes

The provision for income taxes decreased \$82,760 (11.4%) for the six months ended June 30, 2001 when compared to the comparable period in 2000, and \$92,060 (25.9%) for the three months ended June 30, 2001 when compared to the comparable period in 2000. These decreases are due to decreased earnings before taxes of \$221,756 for the six months ended June 30, 2001 and \$244,095 for the three months ended June 30, 2001.

LIQUIDITY AND CAPITAL RESOURCES

Working capital increased from \$6,882,794 at December 31, 2000 to \$8,090,411 at June 30, 2001. The current ratio increased from 7.8 to 1 at December 31, 2000 to 13.1 to 1 at June 30, 2001. The Company has no commitments for any further significant capital expenditures during the remainder of 2001, and believes that its working capital is and will continue to be sufficient to support its operating requirements.

Cash flows provided by operating activities decreased \$657,319 (40.4%) for the six months ended June 30, 2001 as compared the comparable period in 2000. This decrease is mainly due to an increase in outstanding accounts receivable due to timing of sales for the quarter ended June 30, 2001.

Cash flows used in investing activities increased \$822,542 (78.1%) in the six months ended June 30, 2001 when compared to the comparable period in 2000. This increase is mainly due additional investments in temporary investments and marketable securities.

Cash flows used in financing activities increased \$30,930 (8.3%) in the six months ended June 30, 2001 when compared to the comparable period in 2000. This increase is mainly due to the increase in cash dividends paid in 2001 when compared to 2000.

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: August 9, 2001