

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

FORM 10-QSB

(Mark One)

☒ Quarterly report under Section 13 or 15(d) of the Securities
----- Exchange Act of 1934

For the quarterly period ended March 31, 2002

_____ Transition report under Section 13 or 15(d) of the Exchange Act

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

11-1719724

(State or Other Jurisdiction of
Incorporation or Organization)

(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 ☒ No ☐

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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:

4,934,339

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UNITED-GUARDIAN, INC.

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

| | THREE MONTHS ENDED MARCH 31, | |
|---|---------------------------------|--------------|
| | 2002 | 2001 |
| | ----- | ----- |
| Revenue: | | |
| Net sales | \$ 2,382,448 | \$ 2,829,845 |
| | ----- | ----- |
| Costs and expenses: | | |
| Cost of sales | 1,272,735 | 1,297,714 |
| Selling, general and administrative | 481,504 | 581,999 |
| | ----- | ----- |
| | 1,754,239 | 1,879,713 |
| | ----- | ----- |
| Earnings from operations | 628,209 | 950,132 |
| Other income (expense): | | |
| Interest expense | - | (25) |
| Investment income | 49,624 | 66,009 |
| Gain on sale of assets | 79 | - |
| | ----- | ----- |
| Earnings before income taxes | 677,912 | 1,016,116 |
| Provision for income taxes | 240,000 | 380,000 |
| | ----- | ----- |
| Net earnings | \$ 437,912 | \$ 636,116 |
| | ===== | ===== |
| Earnings per common share (basic and diluted) | \$ 0.09 | \$ 0.13 |
| | ===== | ===== |
| Basic weighted average shares | 4,870,795 | 4,863,140 |
| | ===== | ===== |
| Diluted weighted average shares | 4,887,080 | 4,888,777 |
| | ===== | ===== |

See notes to financial statements.

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UNITED-GUARDIAN, INC.
CONSOLIDATED BALANCE SHEETS

| | MARCH 30, 2002 | DECEMBER 31, 2001 |
|---|----------------------|---|
| ASSETS | ----- (UNAUDITED) | ----- (DERIVED FROM AUDITED FINANCIAL STATEMENTS) |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,643,332 | \$ 1,599,857 |
| Temporary investments | 4,414,128 | 4,365,114 |
| Marketable securities | 941,021 | 944,348 |
| Accounts receivable, net of allowance for doubtful accounts of \$63,100 at March 31, 2002 and December 31, 2001, respectively | 928,768 | 844,388 |
| Inventories | 1,233,847 | 1,185,535 |
| Prepaid expenses and other current assets | 208,753 | 327,924 |
| Deferred income taxes | 281,186 | 279,824 |
| | ----- | ----- |
| Total current assets | 9,651,035 | 9,546,990 |
| | ----- | ----- |
| Property, plant and equipment: | | |
| Land | 69,000 | 69,000 |
| Factory equipment and fixtures | 2,689,222 | 2,698,088 |
| Building and improvements | 2,019,737 | 2,019,136 |
| Waste disposal plant | 133,532 | 133,532 |
| | ----- | ----- |
| | 4,911,491 | 4,919,756 |
| Less: Accumulated depreciation | 3,725,051 | 3,721,343 |
| | ----- | ----- |
| | 1,186,440 | 1,198,413 |
| | ----- | ----- |
| Other assets: | | |
| Processes and patents, net of accumulated amortization of \$959,608 and \$946,647 at March 31, 2002 and December 31, 2001, respectively | 22,189 | 35,150 |
| Other | 750 | 1,000 |
| | ----- | ----- |
| | 22,939 | 36,150 |
| | ----- | ----- |
| | \$ 10,860,414 | \$ 10,781,553 |
| | ===== | ===== |

See notes to financial statements.

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UNITED-GUARDIAN, INC.
CONSOLIDATED BALANCE SHEETS

| | MARCH 30, 2002 | DECEMBER 31, 2001 |
|--|-------------------|--|
| | ----- | ----- |
| LIABILITIES AND STOCKHOLDERS' EQUITY | (UNAUDITED) | (DERIVED FROM AUDITED FINANCIAL STATEMENTS) |
| Current liabilities: | | |
| Dividends payable | \$ - | \$ 487,044 |
| Accounts payable | 262,972 | 213,728 |
| Accrued expenses | 343,064 | 344,304 |
| Taxes payable | 75,622 | - |
| | ----- | ----- |
| Total current liabilities | 681,658 | 1,045,076 |
| | ----- | ----- |
| Deferred income taxes | 10,000 | 10,000 |
| | ----- | ----- |
| Stockholders' equity: | | |
| Common stock \$.10 par value, authorized, 10,000,000 shares; issued, 4,934,639 and 4,932,639 shares, respectively; outstanding 4,872,439 and 4,870,439 shares, respectively | 493,464 | 493,264 |
| Capital in excess of par value | 3,496,443 | 3,492,518 |
| Accumulated other comprehensive loss | (23,782) | (24,024) |
| Retained earnings | 6,562,261 | 6,124,349 |
| Treasury stock, at cost; 62,200 shares | (359,630) | (359,630) |
| | ----- | ----- |
| Total stockholders' equity | 10,168,756 | 9,726,477 |
| | ----- | ----- |
| | \$ 10,860,414 | \$ 10,781,553 |
| | ===== | ===== |

See notes to financial statements.

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

| | THREE MONTHS ENDED March 31, | |
|---|---------------------------------|--------------|
| | 2002 | 2001 |
| | ----- | ----- |
| Cash flows provided by operating activities: | | |
| Net earnings | \$ 437,912 | \$ 636,116 |
| Adjustments to reconcile net earnings to net cash flows from operations: | | |
| Depreciation and amortization | 67,424 | 66,019 |
| Amortization of bond premium | 3,026 | |
| Net gain on sale of equipment | (79) | - |
| (Increase) decrease in assets: | | |
| Accounts receivable | (84,380) | (348,835) |
| Inventories | (48,312) | 139,652 |
| Prepaid expense and other current assets | 119,421 | 13,772 |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 49,244 | 57,738 |
| Accrued expenses and taxes payable | 74,382 | 262,354 |
| | ----- | ----- |
| Net cash provided by operating activities | 618,638 | 826,816 |
| | ----- | ----- |
| Cash flows from investing activities: | | |
| Acquisition of property, plant and equipment | (56,911) | (31,208) |
| Proceeds from sale of equipment | 14,500 | - |
| Net change in temporary investments | (49,014) | (534,939) |
| Purchase of marketable securities | (819) | (796) |
| | ----- | ----- |
| Net cash used in investing activities | (92,244) | (566,943) |
| | ----- | ----- |
| Cash flows from financing activities: | | |
| Principal payments on long-term debt | - | (2,579) |
| Proceeds from exercise of stock options | 4,125 | 9,601 |
| Dividends paid | (487,044) | (486,114) |
| | ----- | ----- |
| Net cash used in financing activities | (482,919) | (479,092) |
| | ----- | ----- |
| Net increase (decrease) in cash and cash equivalents | 43,475 | (219,219) |
| Cash and cash equivalents at beginning of period | 1,599,857 | 2,226,812 |
| | ----- | ----- |
| Cash and cash equivalents at end of period | \$ 1,643,332 | \$ 2,007,593 |
| | ===== | ===== |

See notes to financial statements.

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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, 2002 and December 31, 2001 and the results of operations and cash flows for the three months ended March 31, 2002 and 2001. The accounting policies followed by the Company are set forth in the Company's financial statements included in its December 31, 2001 Annual Report to Shareholders.

2. The results of operations for the three months ended March 31, 2002 and 2001 are not necessarily indicative of the results to be expected for the full year.

3. Inventories

| | | |
|---------------------------------------|-------------------|----------------------|
| Inventories consist of the following: | March 31, 2002 | December 31, 2001 |
| | ----- | ----- |
| Raw materials and work in process | \$ 363,460 | \$ 245,849 |
| Finished products and fine chemicals | 870,387 | 939,686 |
| | ----- | ----- |
| | \$1,233,847 | \$1,185,535 |
| | ===== | ===== |

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 taxes were \$1,077 and \$129,476 for the three months ended March 31, 2002 and 2001, respectively.

5. Comprehensive Income (Loss)

The components of comprehensive income (loss) are as follows:

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| | Three months ended March 31, | |
|--|---------------------------------|-----------|
| | 2002 | 2001 |
| | ----- | ----- |
| Net income | \$437,912 | \$636,116 |
| | ----- | ----- |
| Other comprehensive income (loss) | | |
| Unrealized loss on marketable securities | (1,120) | (29,758) |
| | ----- | ----- |
| Net unrealized loss | (1,120) | (29,758) |
| | ----- | ----- |
| Income tax benefit on comprehensive income | (1,362) | (11,100) |
| | ----- | ----- |
| Other comprehensive income (loss) | 242 | (18,658) |
| | ----- | ----- |
| Comprehensive income | \$438,154 | \$617,458 |
| | ===== | ===== |

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, 2002 and 2001.

| | 2002 | 2001 |
|---|------------|------------|
| | ----- | ----- |
| Numerator: | | |
| Net income | \$ 437,912 | \$ 636,116 |
| | ===== | ===== |
| Denominator: | | |
| Denominator for basic earnings per share (weighted average shares) | 4,870,795 | 4,863,140 |
| | | |
| Effect of dilutive securities : | | |
| Employee stock options | 16,285 | 25,637 |
| | ----- | ----- |
| Denominator for diluted earnings per share (adjusted weighted-average shares) and assumed conversions | 4,887,080 | 4,888,777 |
| | ===== | ===== |
| Basic and diluted earnings per share | \$ 0.09 | \$ 0.13 |
| | ===== | ===== |

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7. 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, 2001 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, 2002 and 2001.

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| | Three months ended March 31, | | | | | |
|---|------------------------------|------------|--------------|--------------|------------|--------------|
| | 2002 | | | 2001 | | |
| | GUARDIAN | EASTERN | TOTAL | GUARDIAN | EASTERN | TOTAL |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Revenues from external customers | \$ 2,097,851 | \$ 284,597 | \$ 2,382,448 | \$ 2,438,437 | \$ 391,408 | \$ 2,829,845 |
| Depreciation and amortization | 36,179 | - | 36,179 | 37,937 | - | 37,937 |
| Segment earnings before income taxes | 673,908 | (5,515) | 668,393 | 975,017 | 13,128 | 988,145 |
| Segment assets | 2,402,146 | 407,528 | 2,809,674 | 2,913,212 | 382,296 | 3,295,508 |
| Expenditures for segment assets | 9,983 | - | 9,983 | 3,685 | - | 3,685 |
| Reconciliation to Consolidated Amounts | | | | | | |
| Earnings before income taxes | | | | | | |
| ----- | | | | | | |
| Total earnings for reportable segments | | | \$ 668,393 | | | \$ 988,145 |
| Other earnings | | | 49,703 | | | 65,984 |
| Corporate headquarters expense | | | (40,184) | | | (38,013) |
| ----- | | | | | | |
| Consolidated earnings before income taxes | | | \$ 677,912 | | | \$ 1,016,116 |
| ===== | | | | | | |
| Assets | | | | | | |
| ----- | | | | | | |
| Total assets for reportable segments | | | \$ 2,809,674 | | | \$ 3,295,508 |
| Corporate headquarters | | | 8,050,740 | | | 6,560,345 |
| ----- | | | | | | |
| Total consolidated assets | | | \$10,860,414 | | | \$ 9,855,853 |
| ===== | | | | | | |

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Other significant items

| | 2002 | | | 2001 | | |
|-------------------------------|---------|-----------|--------------|---------|-----------|--------------|
| | Segment | | Consolidated | Segment | | Consolidated |
| | Totals | Corporate | Totals | Totals | Corporate | Totals |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Interest Expense | \$ - | \$ - | \$ - | \$ - | \$ 25 | \$ 25 |
| Expenditures for assets | 9,983 | 46,928 | 56,911 | 3,685 | 27,523 | 31,208 |
| Depreciation and amortization | 36,179 | 31,245 | 67,424 | 37,937 | 28,082 | 66,019 |

Geographic Information

| | 2002 | | 2001 | |
|-----------------|--------------|----------------------|--------------|----------------------|
| | Revenues | Long-Lived Assets | Revenues | Long-Lived Assets |
| | ----- | ----- | ----- | ----- |
| <S> | <C> | <C> | <C> | <C> |
| United States | \$ 1,112,804 | \$ 1,209,379 | \$ 1,311,231 | \$ 1,319,719 |
| France | 435,357 | | 592,864 | |
| Other countries | 834,287 | | 925,750 | |
| | ----- | ----- | ----- | ----- |
| | \$ 2,382,448 | \$ 1,209,379 | \$ 2,829,845 | \$ 1,319,719 |
| | ===== | ===== | ===== | ===== |

Major Customers

| | | |
|-----------------------|--------------|--------------|
| Customer A (Guardian) | \$ 694,187 | \$ 999,805 |
| Customer B (Guardian) | 354,415 | 506,819 |
| All other customers | 1,333,846 | 1,323,221 |
| | ----- | ----- |
| | \$ 2,382,448 | \$ 2,829,845 |
| | ===== | ===== |

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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, 2002 net sales decreased \$447,397 (15.8%) versus the comparable period in 2001. The Guardian Laboratories division ("Guardian") had a sales decrease of \$340,586 (14.0%) while the Eastern Chemical subsidiary ("Eastern") had a sales decrease of \$106,811 (27.3%).

The decrease in Guardian's sales for the three month period is due to a decline in demand for Guardian's products that Registrant

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believes is partly due to the economic condition both in the United States and overseas. The decline in Eastern's sales quarter is believed to be due mainly to normal fluctuations in the purchasing patterns of its customers, but may also be partially attributable to some loss of business due to an inability to provide some products as a result of the ongoing program to reduce Eastern's on-hand inventory.

Cost of sales

Cost of sales as a percentage of sales increased to 53.4% for the three months ended March 31, 2002 from 45.9% for the comparable period ended March 30, 2001. This increase is mainly due to the absorption of fixed costs by a lower sales volume in the quarter as compared to the prior year.

Operating Expenses

Operating expenses decreased \$100,495 (17.3%) in the three months ended March 31, 2002 compared to the comparable period in 2001. This decrease was primarily due to decreases in consulting fees, payroll, and payroll related costs for the three month period ended March 31, 2002 as compared to the three month period ended March 31, 2001.

Investment income

Investment income decreased \$16,385 (24.8%) for the three months ended March 31, 2002 as compared to the comparable period in 2001. The decrease in the three month period was attributable to a decline in interest rates.

Provision for income taxes

The provision for income taxes decreased 140,000 (36.8) the three months ended March 31, 2002 when compared to the comparable period in 2001. The decrease is due to decreased earnings before taxes of \$338,204 for the three months ended March 31, 2002.

LIQUIDITY AND CAPITAL RESOURCES

Working capital increased from \$8,501,914 at December 31, 2001 to \$8,969,377 at March 31, 2002. The current ratio increased from 9.1 to 1 at December 31, 2001 to 14.2 to 1 at March 31, 2002. The Company has no commitments for any further significant capital expenditures during the remainder of 2002, 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 \$208,178 (25.2%) for the three months ended March 31, 2002 as compared the comparable period in 2001. This decrease is mainly due to a decrease in net earnings for the three months ended March 31, 2002.

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Cash flows used in investing activities increased \$474,699 (83.7%) in the three months ended March 31, 2002 when compared to the comparable period in 2001. This increase is mainly due a decline in additional temporary investments.

Cash flows used in financing activities increased \$ 3,827 (.8%) in the three months ended March 31, 2002 when compared to the comparable period in 2001. This increase is mainly due to a decrease in stock options exercised during the three month period ended March 30, 2002 when compared to 2001.

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
Alfred R. Globus
Chief Executive Officer

By: Kenneth H. Globus
Kenneth H. Globus
Chief Financial Officer

Date: May 9, 2002