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UNITED GUARDIAN INC  
Form 10QSB  
November 12, 2003

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended September 30, 2003  
-----

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-10526  
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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 Company 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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Cover Page 1 of 2 Pages

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

Check whether the Company 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:

4,912,239

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UNITED-GUARDIAN, INC.

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

|  | NINE MONTHS ENDED<br>SEPTEMBER 30, |              | THREE MONTHS ENDED<br>SEPTEMBER 30, |              |
|--|------------------------------------|--------------|-------------------------------------|--------------|
|  | 2003                               | 2002         | 2003                                | 2002         |
|  | -----                              | -----        | -----                               | -----        |
| Revenue:   |                                    |              |                                     |              |
| Net sales  | \$ 8,632,494                       | \$ 6,796,553 | \$ 2,315,417                        | \$ 2,085,937 |
|  | -----                              | -----        | -----                               | -----        |
| Costs and expenses:                              |                                    |              |                                     |              |
| Cost of sales                                    | 4,018,227                          | 3,726,051    | 964,711                             | 1,174,265    |
| Operating expenses                               | 1,829,687                          | 1,698,670    | 566,879                             | 562,921      |
|  | -----                              | -----        | -----                               | -----        |
| Income from operations                           | 5,847,914                          | 5,424,721    | 1,531,590                           | 1,737,186    |
|  | -----                              | -----        | -----                               | -----        |
| Income before income taxes                       | 2,784,580                          | 1,371,832    | 783,827                             | 348,751      |
|  | -----                              | -----        | -----                               | -----        |
| Other income (expense):                          |                                    |              |                                     |              |
| Investment income                                | 118,291                            | 144,075      | 39,127                              | 44,987       |
| Gain on sale of assets                           | 500                                | 79           | -                                   | -            |
| Other  | (25)                               | (49)         | -                                   | -            |
|  | -----                              | -----        | -----                               | -----        |
| Income before income taxes                       | 2,903,346                          | 1,515,937    | 822,954                             | 393,738      |
|  | -----                              | -----        | -----                               | -----        |
| Provision for income taxes                       | 1,032,000                          | 528,548      | 290,000                             | 135,548      |
|  | -----                              | -----        | -----                               | -----        |
| Net income                                       | \$ 1,871,346                       | \$ 987,389   | \$ 532,954                          | \$ 258,190   |
|  | =====                              | =====        | =====                               | =====        |
| Earnings per common share<br>(basic and diluted) | \$ 0.38                            | \$ 0.20      | \$ 0.11                             | \$ 0.05      |
|  | =====                              | =====        | =====                               | =====        |
| Weighted average shares<br>- basic               | 4,892,737                          | 4,877,478    | 4,910,022                           | 4,881,139    |
|  | =====                              | =====        | =====                               | =====        |
| Weighted average shares<br>- diluted             | 4,910,370                          | 4,889,870    | 4,930,761                           | 4,888,794    |
|  | =====                              | =====        | =====                               | =====        |

See notes to financial statements

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|   | SEPTEMBER 30,<br>2003 | DECEMBER 31,<br>2002                           |
|---|-----------------------|--|
| ASSETS  | (UNAUDITED)           | (DERIVED FROM AUDITED<br>FINANCIAL STATEMENTS) |
| Current assets:   |                       |  |
| Cash and cash equivalents   | \$ 1,666,853          | \$ 3,184,599                                   |
| Temporary investments   | 2,280,036             | 4,151,787                                      |
| Marketable securities   | 6,005,562             | 882,243  |
| Accounts receivable, net of<br>allowance for doubtful accounts<br>of \$25,500 at September 30, 2003 and<br>and December 31, 2002 respectively           | 1,037,985             | 704,560  |
| Inventories (net)   | 845,948               | 1,037,315                                      |
| Prepaid expenses and other<br>current assets  | 173,900               | 342,476  |
| Deferred income taxes   | 279,947               | 297,774  |
|   | -----                 | -----  |
| Total current assets  | 12,290,231            | 10,600,754                                     |
|   | -----                 | -----  |
| Property, plant and equipment:  |                       |  |
| Land  | 69,000                | 69,000   |
| Factory equipment and fixtures  | 2,797,500             | 2,738,110                                      |
| Building and improvements   | 2,068,266             | 2,045,588                                      |
| Waste disposal plant  | 133,532               | 133,532  |
|   | -----                 | -----  |
|   | 5,068,298             | 4,986,230                                      |
| Less: Accumulated depreciation  | 4,021,716             | 3,880,660                                      |
|   | -----                 | -----  |
|   | 1,046,582             | 1,105,570                                      |
|   | -----                 | -----  |
| Other assets:   |                       |  |
| Processes and patents, net of<br>accumulated amortization of<br>\$981,635 and \$981,341 at<br>September 30, 2003 and December 31,<br>2002, respectively | 163                   | 456  |
| Other   | 700                   | 700  |
|   | -----                 | -----  |
|   | 863                   | 1,156  |
|   | -----                 | -----  |
|   | \$ 13,337,676         | \$ 11,707,480                                  |
|   | =====                 | =====  |

See notes to financial statements

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|   | SEPETMBER 30,<br>2003 | DECEMBER 31,<br>2002                                    |
|---|-----------------------|---|
|   | -----<br>(UNAUDITED)  | -----<br>(DERIVED FROM AUDITED<br>FINANCIAL STATEMENTS) |
| LIABILITIES AND<br>STOCKHOLDERS' EQUITY   |                       |   |
| Current liabilities:  |                       |   |
| Dividends payable   | \$ -                  | \$ 488,114  |
| Accounts payable  | 220,407               | 188,868   |
| Accrued expenses  | 315,547               | 345,407   |
| Taxes payable   | 101,483               | -   |
|   | -----                 | -----   |
| Total current liabilities   | 637,437               | 1,022,389   |
|   | -----                 | -----   |
| Deferred income taxes   | 10,000                | 10,000  |
|   | -----                 | -----   |
| Stockholders' equity:   |                       |   |
| Common stock \$.10 par value,<br>authorized, 10,000,000 shares;<br>4,974,239 and 4,943,339 shares<br>issued, respectively; 4,912,039<br>and 4,881,139 shares outstanding,<br>respectively | 497,424               | 494,334   |
| Capital in excess of par value  | 3,649,168             | 3,538,423   |
| Accumulated other comprehensive loss  | (25,809)              | (55,776)  |
| Retained earnings   | 8,929,086             | 7,057,740   |
| Treasury stock, at cost; 62,200 shares  | (359,630)             | (359,630)   |
|   | -----                 | -----   |
| Total stockholders' equity  | 12,690,239            | 10,675,091  |
|   | -----                 | -----   |
|   | \$ 13,337,676         | \$ 11,707,480   |
|   | =====                 | =====   |

See notes to financial statements

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|   | NINE MONTHS ENDED<br>SEPTEMBER 30, |              |
|---|------------------------------------|--------------|
|   | 2003                               | 2002         |
|   | -----                              | -----        |
| Cash flows provided by operating activities:                                |                                    |              |
| Net income  | \$ 1,871,346                       | \$ 987,389   |
| Adjustments to reconcile net earnings<br>to net cash flows from operations: |                                    |              |
| Depreciation and amortization   | 149,349                            | 192,320      |
| Amortization of bond premium  | 5,548                              | 9,144        |
| Net gain on sale of equipment   | (500)                              | (79)         |
| Provision for doubtful accounts   | 11,406                             | -            |
| Provision for inventory obsolescence  | 125,800                            | -            |
| (Increase) decrease in assets:  |                                    |              |
| Accounts receivable   | (344,831)                          | 64,618       |
| Inventories   | 65,567                             | (19,350)     |
| Prepaid expenses and other current<br>and non-current assets                | 168,576                            | 11,085       |
| Increase (decrease) in liabilities:   |                                    |              |
| Accounts payable  | 31,539                             | 126,935      |
| Accrued expenses and taxes payable  | 71,623                             | 27,841       |
|   | -----                              | -----        |
| Net cash provided by operating activities                                   | 2,155,423                          | 1,399,903    |
|   | -----                              | -----        |
| Cash flows from investing activities:                                       |                                    |              |
| Acquisition of property, plant and equipment                                | (90,068)                           | (102,341)    |
| Proceeds from sale of equipment   | 500                                | 14,500       |
| Net change in temporary investments   | 1,871,751                          | 332,014      |
| Proceeds from sale of marketable securities                                 | 480,000                            | -            |
| Purchase of marketable securities   | (5,561,073)                        | (2,924)      |
|   | -----                              | -----        |
| Net cash provided by (used in)<br>investing activities                      | (3,298,890)                        | 241,249      |
|   | -----                              | -----        |
| Cash flows from financing activities:                                       |                                    |              |
| Proceeds from exercise of stock options                                     | 113,835                            | 35,975       |
| Dividends paid  | (488,114)                          | (487,044)    |
|   | -----                              | -----        |
| Net cash used in financing activities                                       | (374,279)                          | (451,069)    |
|   | -----                              | -----        |
| Net (decrease) increase in cash and<br>cash equivalents                     | (1,517,746)                        | 1,190,083    |
| Cash and cash equivalents at beginning of period                            | 3,184,599                          | 1,599,857    |
|   | -----                              | -----        |
| Cash and cash equivalents at end of period                                  | \$ 1,666,853                       | \$ 2,789,940 |
|   | =====                              | =====        |

See notes to financial statements

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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 September 30, 2003 and the results of operations and cash flows for the three and nine months ended September 30, 2003 and 2002. The accounting policies followed by the Company are set forth in the Company's financial statements included in its December 31, 2002 Annual Report to Shareholders.

2. The results of operations for the three and nine months ended September 30, 2003 and 2002 are not necessarily indicative of the results to be expected for the full year.

3. Stock-Based Compensation: At September 30, 2003, the Company had two stock-based employee compensation plans. As permitted under SFAS NO. 148, (Accounting for Stock-Based Compensation-Transition and Disclosure), which amended SFAS NO. 123, (Accounting for Stock-Based Compensation), United-Guardian has elected to continue to follow the intrinsic value method in accounting for its stock-based employee compensation arrangement as defined by Accounting Principle Board Opinion ("APB") No. 25, (Accounting for Stock Issued to Employees), and related interpretations including Financial Accounting Standards Board Interpretation No. 44, (Accounting for Certain Transactions involving Stock Compensation), an interpretation of APB No. 25. The following table illustrates the effect on net income and earnings per share if the company had applied the fair value recognition provisions of SFAS No.123 to stock-based employee compensation.

|   | Nine months ended<br>September 30,<br>2003 | September 30,<br>2002 | Three months e<br>September 3<br>2003 |
|---|--|-----------------------|---------------------------------------|
|   | -----                                      | -----                 | -----                                 |
| Reported net income   | \$1,871,346                                | \$ 987,389            | \$532,954                             |
| Stock-based employee compensation<br>expense included in reported net<br>income, net of related tax effects     | 0  | 0                     | 0                                     |
| Stock-based employee compensation<br>determined under the fair value based<br>method, net of related tax effect | (15,957)                                   | 0                     | (2,762)                               |
|   | -----                                      | -----                 | -----                                 |
| Pro forma net income  | \$1,855,389                                | \$987,389             | \$530,192                             |
|   | =====                                      | =====                 | =====                                 |
| Earnings per share (basic and diluted)  |  |                       |                                       |
| As reported   | \$ .38                                     | \$ .20                | \$ .11                                |
| Pro forma   | \$ .38                                     | \$ .20                | \$ .11                                |

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#### 4. Inventories - Net

Inventories consist of the following:

|  |                       |                      |
|--|-----------------------|----------------------|
|  | September 30,<br>2003 | December 31,<br>2002 |
|--|-----------------------|----------------------|

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|                                      |            |             |
|--------------------------------------|------------|-------------|
|                                      | -----      | -----       |
| Raw materials and work in process    | \$ 302,495 | \$ 269,067  |
| Finished products and fine chemicals | 543,453    | 768,248     |
|                                      | -----      | -----       |
|                                      | \$ 845,948 | \$1,037,315 |
|                                      | =====      | =====       |

At September 30, 2003 and December 31, 2002, the Company has reserved \$240,200 and \$366,000 respectively for slow moving and obsolete inventory.

5. 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 \$801,295 and \$513,779 for the nine months ended September 30, 2003 and 2002, respectively.

### 6. Comprehensive Income (Loss)

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

|  | Nine months ended September 30,<br>2003 | 2002       | Three months ended S<br>2003 |       |
|--|---|------------|------------------------------|-------|
|  | -----                                   | -----      | -----                        | ----- |
| Net income   | \$1,871,346                             | \$ 987,389 | \$532,954                    | \$2   |
|  | -----                                   | -----      | -----                        | ----- |
| Other comprehensive income (loss)                  |   |            |                              |       |
| Unrealized gain (loss) on<br>marketable securities | 47,795                                  | (67,874)   | 25,552                       | (     |
|  | -----                                   | -----      | -----                        | ----- |
| Income tax benefit on<br>comprehensive gain (loss) | 17,827                                  | (27,621)   | 9,547                        | (     |
|  | -----                                   | -----      | -----                        | ----- |
| Other comprehensive income (loss)                  | 29,968                                  | (40,253)   | 16,021                       | (     |
|  | -----                                   | -----      | -----                        | ----- |
| Comprehensive income                               | \$1,901,314                             | \$ 947,136 | \$548,975                    | \$2   |
|  | =====                                   | =====      | =====                        | ===== |

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

### 7. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share at September 30, 2003 and 2002.

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|   | Nine months ended<br>September 30, |            | Three months end<br>September 30, |       |
|---|------------------------------------|------------|-----------------------------------|-------|
|   | 2003                               | 2002       | 2003                              |       |
|   | -----                              | -----      | -----                             | ----- |
| Numerator:  |                                    |            |                                   |       |
| Net income  | \$1,871,346                        | \$ 987,389 | \$ 532,954                        | \$ 2  |
|   | =====                              | =====      | =====                             | ===== |
| Denominator:  |                                    |            |                                   |       |
| Denominator for basic earnings<br>per share (weighted average<br>shares)                                    | 4,892,737                          | 4,877,478  | 4,910,022                         | 4,8   |
| Effect of dilutive securities:  |                                    |            |                                   |       |
| Employee stock options  | 17,633                             | 12,392     | 20,739                            |       |
|   | -----                              | -----      | -----                             | ----- |
| Denominator for diluted earnings<br>per share (adjusted weighted-average<br>shares) and assumed conversions | 4,910,370                          | 4,889,870  | 4,930,761                         | 4,8   |
|   | =====                              | =====      | =====                             | ===== |
| Basic and diluted earnings per share  | \$ 0.38                            | \$ 0.20    | \$ 0.11                           | \$    |
|   | =====                              | =====      | =====                             | ===== |

Options to purchase 8,500 and 2,833 shares of the Company's common stock have been excluded from the computation of diluted earnings per share in the three and nine months ended September 30, 2002, respectively, as their inclusion would be antidilutive.

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 Annual Report for the year ended December 31, 2002. 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 nine and three month periods ended September 30, 2003 and 2002.

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|  | GUARDIAN<br>----- | EASTERN<br>----- | TOTAL<br>----- | GUARDIAN<br>----- |
|--|-------------------|------------------|----------------|-------------------|
| Revenues from external customers             | \$ 7,824,875      | \$ 807,619       | \$ 8,632,494   | \$ 5,859,785      |
| Depreciation and amortization                | 64,852            | -                | 64,852         | 105,186           |
| Segment income (loss) before<br>income taxes | 2,894,764         | 14,191           | 2,908,955      | 1,550,911         |
| Segment assets                               | 2,076,219         | 303,359          | 2,379,578      | 2,125,281         |
| Expenditures for segment assets              | 62,808            | -                | 62,808         | 34,819            |
| Reconciliation to Consolidated Amounts       |                   |                  |                |                   |
| Income before income taxes                   |                   |                  |                |                   |
| -----  |                   |                  |                |                   |
| Total earnings for reportable segments       |                   |                  | \$ 2,908,955   |                   |
| Other income, net                            |                   |                  | 118,766        |                   |
| Corporate headquarters expense               |                   |                  | (124,375)      |                   |
| -----  |                   |                  |                |                   |
| Consolidated earnings before income<br>taxes |                   |                  | \$ 2,903,346   |                   |
| =====  |                   |                  |                |                   |
| Assets                                       |                   |                  |                |                   |
| -----  |                   |                  |                |                   |
| Total assets for reportable segments         |                   |                  | \$ 2,379,578   |                   |
| Corporate headquarters                       |                   |                  | 10,958,098     |                   |
| -----  |                   |                  |                |                   |
| Total consolidated assets                    |                   |                  | \$13,337,676   |                   |
| =====  |                   |                  |                |                   |

|  | 2003              |                  |                | Three months ended September 30 |
|--|-------------------|------------------|----------------|---------------------------------|
|  | GUARDIAN<br>----- | EASTERN<br>----- | TOTAL<br>----- | GUARDIAN<br>-----               |
| Revenues from external customers             | \$ 2,086,738      | \$ 228,679       | \$ 2,315,417   | \$ 1,773,778                    |
| Depreciation and amortization                | 19,045            | -                | 19,045         | 34,015                          |
| Segment income (loss) before<br>income taxes | 767,923           | 54,179           | 822,102        | 420,141                         |

|                                      |            |
|--------------------------------------|------------|
| Earnings before income taxes         |            |
| -----                                |            |
| Total income for reportable segments | \$ 822,102 |
| Other income, net                    | 39,127     |
| Corporate headquarters expense       | (38,275)   |
| -----                                |            |

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Consolidated earnings before income taxes \$ 822,954  
=====

Other significant items  
-----

|                               | Nine Months ended September 30, |           |                     |                |
|-------------------------------|---------------------------------|-----------|---------------------|----------------|
|                               | 2003                            |           |                     |                |
|                               | Segment Totals                  | Corporate | Consolidated Totals | Segment Totals |
| Expenditures for assets       | 62,808                          | 27,260    | 90,068              | 34,819         |
| Depreciation and amortization | 64,852                          | 84,497    | 149,349             | 105,186        |

Geographic Information  
-----

|                 | 2003         |                   | 2002         |       |
|-----------------|--------------|-------------------|--------------|-------|
|                 | Revenues     | Long-Lived Assets | Revenues     | Lo    |
| United States   | \$ 4,384,781 | \$ 1,046,745      | \$ 4,075,260 | \$    |
| France          | 1,069,869    |                   | 893,559      |       |
| Other countries | 3,177,844    |                   | 1,827,734    |       |
|                 | \$ 8,632,494 | \$ 1,046,745      | \$ 6,796,553 | \$    |
|                 | =====        | =====             | =====        | ===== |

Major Customers  
-----

|                        |              |              |
|------------------------|--------------|--------------|
| Customer A (Guardian)* | \$ 3,523,475 | \$ 2,013,715 |
| Customer B (Guardian)  | 876,078      | 696,215      |
| All other customers    | 4,232,941    | 4,086,623    |
|                        | \$ 8,632,494 | \$ 6,796,553 |
|                        | =====        | =====        |

\* At September 30, 2003 Customer A had a balance approximating 28% of accounts receivable.

9. Impact of Recently Issued Accounting Pronouncements

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which addresses accounting for restructuring and similar costs. SFAS No. 146 supersedes previous accounting guidance, principally Emerging Issues Task Force Issue No. 94-3. SFAS No. 146 requires that the liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. SFAS No. 146 also

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establishes that the liability should initially be measured and recorded at fair value. Accordingly SFAS No. 146 may affect the timing of recognizing future restructuring costs as well as the amount recognized. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. Management believes that the adoption of SFAS No. 146 will not have a material impact on its results of operations or financial position.

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

#### FORWARD LOOKING STATEMENTS

Statements made in this Form 10-QSB which are not purely historical are forward-looking statements with respect to the goals, plans, objectives, intentions, expectations, financial condition, results of operations, future performance and business of the Company. Forward-looking statements may be identified by the use of such words as "believes," "may," "will," "should," "intends," "plans," "estimates," or "anticipates" or other similar expressions.

Forward-looking statements involve inherent risks and uncertainties, and important factors (many of which are beyond our control) could cause actual results to differ materially from those set forth in the forward-looking statements. In addition to those specific risks and uncertainties set forth in the Company's reports currently on file with the SEC, some other factors that may affect the future results of operations of the Company are: the development of products that may be superior to the those of the Company; changes in the quality or composition of the Company's products; lack of market acceptance of the Company's products; the Company's ability to develop new products; general economic or industry conditions; intellectual property rights; changes in interest rates; new legislation or regulatory requirements; conditions of the securities markets; the Company's ability to raise capital; changes in accounting principals, policies or guidelines; financial or political instability; acts of war or terrorism; and other economic, competitive, governmental, regulatory and technical factors that may affect the Company's operations, products, services and prices.

Accordingly, results actually achieved may differ materially from those anticipated as a result of such forward-looking statements, and those statements speak only as of the date they are made. The Company does not undertake, and specifically disclaims, any obligation to update any forward-looking statements to reflect events or circumstances occurring after the date of such statements.

#### OVERVIEW

The Company is a Delaware corporation that operates in two business segments. Its Guardian Laboratories Division ("Guardian") conducts research, product development, manufacturing and marketing of cosmetic ingredients, personal and health care products, pharmaceuticals, and specialty industrial

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products. The products manufactured by Guardian are marketed through marketing partners, distributors, direct advertising, mailings, and trade exhibitions. Its most important personal care product line is its LUBRAJEL(R) line of water based moisturizing and lubricating gels. It also sells two pharmaceutical products, which are distributed 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.

While the Company does have competition in the marketplace for some of its products, many of its products or processes are either unique in their field or

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have some unique characteristics, and therefore are not in direct competition with the products or processes of other pharmaceutical, chemical, or health care companies. Guardian's research and development department is actively working on the development of new products to expand the Company's personal care line.

The Company has been issued many patents and trademarks, and intends whenever possible to make efforts to obtain patents in connection with its product development program.

The Company's Eastern Chemical subsidiary distributes an extensive line of fine organic chemicals, research chemicals, test solutions, indicators, dyes and reagents. Eastern's products are marketed through advertising in trade publications and direct mailings and are sold to both to distributors and directly to users for use in a wide variety of applications. Since the Company's business activities and marketing efforts over the past several years have focused increasingly on the Guardian division, which the Company believes has greater growth potential, the Company is in the process of reducing Eastern's inventory levels in order to make the subsidiary more marketable in the event the Company decides to sell the Eastern operation at some future date.

Products manufactured by the Company are marketed worldwide through its extensive marketing and distribution arrangements. Approximately half of the Company's sales are to foreign customers.

The following discussion and analysis covers material changes in the financial condition of the Company since year end December 31, 2002, and a comparison of the results of operations for the three and nine month periods ended September 30, 2003 and September 30, 2002. This discussion and analysis should be read in conjunction with "Management's Discussion and Analysis or Plan of Operation" included in the Company's Form 10-KSB for the year ended December 31, 2002.

### RESULTS OF OPERATIONS

#### Gross revenue from operations

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For the nine month period ended September 30, 2003 net sales increased \$1,835,941 (27.0%) versus the comparable period in 2002. The Guardian Laboratories division ("Guardian") had a sales increase of \$1,965,090 (33.5%) while the Eastern Chemical subsidiary ("Eastern") had a sales decrease of \$129,149 (13.8%).

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For the three month period ended September 30, 2003 revenue increased \$229,480 (11.0%) over the comparable period in 2002. Guardian sales increased \$312,960 (17.6%), while Eastern sales decreased \$83,480 (26.7%).

The increase in Guardian's sales for the three and nine month periods is due to an overall increase in demand for Guardian's products. Some of this demand may be attributable to new launches of personal care products that contain ingredients produced by Guardian, by companies that had been refraining from launching new products due to the poor economic conditions that have prevailed in both the U.S. and overseas. Based on information provided to the Company by its distributors, over the past year or so there has been an increase

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in activity on the part of many customers, which has resulted in increased demand for the Company's products.

The decline in Eastern's sales 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. The Company does not anticipate any significant increase or decrease in Eastern's sales in the near future.

### Cost of sales

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Cost of sales as a percentage of sales decreased to 46.5% for the nine months ended September 30, 2003 from 54.8% for the comparable period ended September 30, 2002. For the three month period ended September 30, 2003 compared to the three month period ended September 30, 2002 the cost of sales as a percentage of sales decreased to 41.7% from 56.3%. This decrease is mainly due to increased sales resulting in a favorable production variance of approximately \$125,000 for the three and nine month periods in 2003 as compared to the same periods in the prior year. For the three months ended September 30, 2003, the Company realized savings in disposal costs and obsolete inventory of approximately \$50,000 and \$126,000 respectively. The Company had recorded such reserves in prior years.

Excluding realized savings from disposal costs and obsolete inventory, cost of sales, as a percentage of sales, would have been 50.0% for the nine month period ended September 30, 2003 as compared to 54.8% for the comparable period in the prior year. For the three months ended September 30, 2003, cost of sales as a percentage of sales would have been 54.7% as compared to 56.3% for the comparable period in the prior year.

### Operating Expenses

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Operating expenses increased \$131,017 (7.7%) for the nine months ended September 30, 2003 compared to the comparable period in 2002. For the three month period ended September 30, 2003 operating expenses increased \$3,958 (.7%) over the comparable period in 2002. The increase for the nine month period was primarily due to increases in insurance costs, advertising costs, and a one time reserve for the payment of a civil fine (see "Legal Proceedings" below). For the three month period increases in expenses due to the aforementioned civil penalty and an increase in board of directors fees were offset by a decrease in payroll and payroll related costs as compared to the same period in the prior year.

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### Investment income

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Investment income decreased \$25,784 (17.9%) for the nine months ended September 30, 2003 as compared to the comparable period in 2002, and \$5,860 (13.0%) for the three months ended September 30, 2003 when compared to the comparable period in 2002. These decreases were attributable to a decline in interest rates. Investment income is recorded net of brokerage fees.

### Provision for income taxes

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The provision for income taxes increased \$503,452 (95.3%) for the nine

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months ended September 30, 2003 when compared to the comparable period in 2002, and \$154,452 (113.9%) for the three months ended September 30, 2003 when compared to the comparable period in 2002. These increases are due to increased earnings before taxes of \$1,387,409 for the nine months ended September 30, 2003 and \$429,216 for the three months ended September 30, 2002.

### LIQUIDITY AND CAPITAL RESOURCES

Working capital increased from \$9,578,365 at December 31, 2002 to \$11,652,794 at September 30, 2003. The current ratio increased from 10.4 to 1 at December 31, 2002 to 19.3 to 1 at September 30, 2003. The Company has no commitments for any further significant capital expenditures during the remainder of 2003, and believes that its working capital is and will continue to be sufficient to support its operating requirements.

The company generated cash from operations of \$2,155,423 and \$1,399,903 for the nine months ended September 30, 2003 and September 30, 2002 respectively. The increase was primarily due to the increase in net income.

During the nine month period ended September 30, 2003 \$3,298,890 was used in investment activities, as compared to the nine months ended September 30, 2002 when \$241,249 was provided by investing activities. The change from \$241,249 provided by investing activities in 2002 to \$3,298,890 used in investing activities in 2003 was due to an increase in purchases of marketable securities (primarily bonds) and redemption of some certificates of deposit.

Cash used in financing activities was \$374,279 and \$451,069 for the nine months ended September 30, 2003 and September 30, 2002 respectively. The decrease is due primarily to an increase in stock options exercised during the nine months ended September 30, 2003 as compared to the nine months ended September 30, 2002.

### Item 3. Controls and Procedures

#### (a) Evaluation of Disclosure Controls and Procedures

Within 90 days prior to the filing of this Quarterly Report on Form 10-QSB the Company's principal executive officer and principal financial officer evaluated the effectiveness of the design and operation of Company's disclosure

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controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934 (the "Exchange Act")) and concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its officers, as appropriate to allow timely decisions regarding required disclosure, and are effective to ensure that such information is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

#### (b) Changes in Internal Controls

The Company's principal executive officer and principal financial officer have also concluded there were no significant changes in the Company's internal

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controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

### PART II - OTHER INFORMATION

#### ITEM 1 - LEGAL PROCEEDINGS

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

In September, 2003 the Company was served with a complaint and proposed order by the U.S. Environmental Protection Agency ("EPA") alleging that (a) the Company had failed to perform certain testing of its pharmaceutical waste water prior to having it disposed of by the licensed contractor it had been using for many years, and (b) that it had failed to provide the proper paperwork regarding such testing. Because the pharmaceutical waste generated by the Company is so small (averaging only about 1% of its annual waste water) it was not aware that it was subject to these requirements. The Company has met with the EPA, which has accepted the Company's explanation that its failure to comply was inadvertent, and has agreed to enter into a consent decree that neither admits nor denies any liability but provides for the payment of a civil penalty of \$23,000. The EPA has agreed that as long as the Company files the required reports that it will not pursue any further action and the matter will be closed.

ITEM 2 - CHANGES IN SECURITIES AND USE OF PROCEEDS: NONE

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES: NONE

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS: NONE

ITEM 5 - OTHER INFORMATION: NONE

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

#### a. Exhibits

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

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31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

#### b. Reports on Form 8-K

There was one report on Form 8-K filed on August 5, 2003

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pertaining to the issuance of an earnings release by the Company on August 5, 2003.

SIGNATURES

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

UNITED-GUARDIAN, INC.  
(Registrant)

By: /s/ Alfred R. Globus  
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Alfred R. Globus  
Chief Executive Officer

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

Date: November 11, 2003