

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 September 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.

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

	NINE MONTHS ENDED SEPTEMBER 30,		THREE MONTHS ENDED SEPTEMBER 30,	
	2001 ----	2000 ----	2001 ----	2000 ----
Revenue:				
Net sales	\$ 7,625,049	\$ 7,795,787	\$ 2,201,249	\$ 1,941,977
	-----	-----	-----	-----
Costs and expenses:				
Cost of sales	3,638,997	3,791,152	1,017,445	916,405
Selling, general and administrative	1,747,294	1,639,314	535,456	513,171
	-----	-----	-----	-----
	5,386,291	5,430,466	1,552,901	1,429,576
	-----	-----	-----	-----
Earnings from operations	2,238,758	2,365,321	648,348	512,401
Other income (expense):				
Interest expense	(38)	(354)	(1)	(220)
Investment income	186,713	154,720	54,968	63,632
Loss on sale of asset	(8,859)	-	(8,859)	-
	-----	-----	-----	-----
Earnings before income taxes	2,416,574	2,519,687	694,456	575,813
Provision for income taxes	902,740	940,000	260,000	214,500
	-----	-----	-----	-----
Net earnings	\$ 1,513,834	\$ 1,579,687	\$ 434,456	\$ 361,313
	=====	=====	=====	=====
Earnings per common share - basic and diluted	\$ 0.31	\$ 0.32	\$ 0.09	\$ 0.07
	=====	=====	=====	=====
Basic weighted average shares	4,867,465	4,892,270	4,870,029	4,890,956
	=====	=====	=====	=====
Diluted weighted average shares	4,887,602	4,920,441	4,884,338	4,920,396
	=====	=====	=====	=====

See notes to financial statements.

UNITED-GUARDIAN, INC.
CONSOLIDATED BALANCE SHEETS

	SEPTEMBER 30, 2001	DECEMBER 31, 2000
ASSETS	(UNAUDITED)	(DERIVED FROM AUDITED FINANCIAL STATEMENTS)
Current assets:		
Cash and cash equivalents	\$ 998,907	\$ 2,226,812
Temporary investments	4,803,100	2,736,886
Marketable securities	828,742	270,924
Accounts receivable, net of allowance for doubtful accounts of \$46,700 and \$47,300 at September 30, 2001 and December 31, 2000, respectively	760,310	801,070
Inventories	1,259,026	1,464,564
Prepaid expenses and other current assets	225,617	169,605
Deferred income taxes	244,264	224,688
Total current assets	9,119,966	7,894,549
Property, plant and equipment:		
Land	69,000	69,000
Factory equipment and fixtures	2,680,424	2,613,203
Building and improvements	2,019,137	1,985,342
Waste disposal plant	133,532	133,532
	4,902,093	4,801,077
Less: Accumulated depreciation	3,687,140	3,533,542
	1,214,953	1,267,535
Other assets:		
Processes and patents, net of accumulated amortization of \$933,686 and \$894,802 at September 30, 2001 and December 31, 2000, respectively	48,111	86,995
Note receivable - officer	-	147,316
Other	1,000	1,000
	49,111	235,311
	\$ 10,384,030	\$ 9,397,395

See notes to financial statements.

UNITED-GUARDIAN, INC.
CONSOLIDATED BALANCE SHEETS

	SEPTEMBER 30, 2001	DECEMBER 31, 2000
	----- (UNAUDITED)	----- (DERIVED FROM AUDITED FINANCIAL STATEMENTS)
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Dividends payable	\$ -	\$ 486,114
Accounts payable	217,587	178,035
Accrued expenses	360,254	262,120
Taxes payable	-	79,450
Current portion of long-term debt	-	6,036
	-----	-----
Total current liabilities	577,841	1,011,755
	-----	-----
Deferred income taxes	10,000	10,000
	-----	-----
Stockholders' equity:		
Common stock \$.10 par value, authorized, 10,000,000 shares; issued, 4,932,639 and 4,901,139 shares, respectively; outstanding 4,870,439 and 4,861,139 shares, respectively	493,264	490,114
Capital in excess of par value	3,464,518	3,373,417
Accumulated other comprehensive loss	(36,180)	(3,274)
Retained earnings	6,234,217	4,720,383
Treasury stock, at cost; 62,200 and 40,000 shares, respectively	(359,630)	(205,000)
	-----	-----
Total stockholders' equity	9,796,189	8,375,640
	-----	-----
	\$ 10,384,030	\$ 9,397,395
	=====	=====

See notes to financial statements.

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

	NINE MONTHS ENDED	
	September 30,	
	2001	2000
	-----	-----
Cash flows provided by operating activities:		
Net earnings	\$ 1,513,834	\$ 1,579,687
Adjustments to reconcile net earnings to net cash flows from operations:		
Depreciation and amortization	204,776	224,985
Net loss on sale of equipment	8,859	-
Provision for doubtful accounts	(600)	(5,751)
(Increase) decrease in assets:		
Accounts receivable	41,360	130,709
Inventories	205,538	(154,109)
Prepaid expense and other current assets	(63,326)	(34,813)
Increase (decrease) in liabilities:		
Accounts payable	39,552	(101,100)
Accrued expenses and taxes payable	18,684	(7,989)
	-----	-----
Net cash provided by operating activities	1,968,677	1,631,619
	-----	-----
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(131,369)	(133,106)
Proceeds from sale of equipment	9,200	-
Net change in temporary investments	(2,066,214)	(2,124,517)
Purchase of marketable securities	(660,300)	(3,226)
Proceeds from sale of marketable securities	50,000	-
	-----	-----
Net cash used in investing activities	(2,798,683)	(2,260,849)
	-----	-----
Cash flows from financing activities:		
Principal payments on long-term debt	(6,036)	(7,626)
Proceeds from exercise of stock options	94,251	29,981
Dividends paid	(486,114)	(391,131)
	-----	-----
Net cash used in financing activities	(397,899)	(368,776)
	-----	-----
Net decrease in cash and cash equivalents	(1,227,905)	(998,006)
Cash and cash equivalents at beginning of period	2,226,812	2,014,556
	-----	-----
Cash and cash equivalents at end of period	\$ 998,907	\$ 1,016,550
	=====	=====

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 September 30, 2001 and December 31, 2000 and the results of operations and cash flows for the three and nine months ended September 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 nine months ended September 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:	September 30, 2001	December 31, 2000
Raw materials and work in process	\$ 313,546	\$ 261,891
Finished products and fine chemicals	945,480	1,202,673
	-----	-----
	\$1,259,026	\$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 \$38 and \$354 for the nine months ended September 30, 2001 and 2000, respectively.

Cash payments for taxes were \$1,078,271 and \$1,027,826 for the nine months ended September 30, 2001 and 2000, respectively.

5. Comprehensive Income

The components of comprehensive income are as follows:

	Nine months ended September 30,		Three months ended September 30,	
	2001	2000	2001	2000
Net income	\$1,513,834	\$1,579,687	\$434,456	\$361,313
Other comprehensive income				
Unrealized gain (loss) on marketable securities	(52,482)	1,109	(36,505)	(1,500)
Net unrealized gain (loss)	(52,482)	1,109	(36,505)	(1,500)
Income tax expense (benefit) on comprehensive income	(19,576)	413	(13,623)	(521)
Other comprehensive income (loss)	(32,906)	696	(22,882)	(979)
Comprehensive income	\$1,480,928	\$1,580,383	\$411,574	\$360,334
	=====	=====	=====	=====

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 September 30, 2001 and 2000.

	Nine months ended September 30,		Three months ended September 30,	
	2001	2000	2001	2000
Numerator:				
Net income	\$1,513,834	\$1,579,687	\$ 434,456	\$ 361,313
Denominator:				
Denominator for basic earnings per share (weighted average shares)	4,867,465	4,892,270	4,870,029	4,890,956
Effect of dilutive securities :				
Employee stock options	20,137	28,171	14,309	29,440
Denominator for diluted earnings per share (adjusted weighted-average shares) and assumed conversions	4,887,602	4,920,441	4,884,338	4,920,396
Basic and diluted earnings per share	\$ 0.31	\$ 0.32	\$ 0.09	\$ 0.07

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 nine and three months ended September 30, 2001 and 2000.

	Nine months ended September 30,					
	2001			2000		
	GUARDIAN	EASTERN	TOTAL	GUARDIAN	EASTERN	TOTAL
Revenues from external customers	\$ 6,556,466	\$ 1,068,583	\$ 7,625,049	\$ 6,620,110	\$ 1,175,677	\$ 7,795,787
Depreciation and amortization	117,079	-	117,079	123,729	-	123,729
Segment earnings before income taxes	2,337,639	25,343	2,362,982	2,410,028	92,468	2,502,496
Segment assets	2,147,797	463,304	2,611,101	2,410,648	519,781	2,930,429
Expenditures for segment assets	30,506	-	30,506	117,650	-	117,650
Reconciliation to Consolidated Amounts						
Earnings before income taxes						

Total earnings for reportable segments			\$ 2,362,982			\$ 2,502,496
Other earnings			177,816			154,366
Corporate headquarters expense			(124,224)			(137,175)

Consolidated earnings before income taxes			\$ 2,416,574			\$ 2,519,687

Assets						

Total assets for reportable segments			\$ 2,611,101			\$ 2,930,429
Corporate headquarters			7,772,929			5,862,013

Total consolidated assets			\$10,384,030			\$ 8,792,442

	Three months ended September 30,					
	2001			2000		
	GUARDIAN	EASTERN	TOTAL	GUARDIAN	EASTERN	TOTAL
Revenues from external customers	\$ 1,866,397	\$ 334,852	\$ 2,201,249	\$ 1,599,721	\$ 342,256	\$ 1,941,977
Segment earnings before income taxes	675,409	13,594	689,003	542,646	11,962	554,608
Earnings before income taxes						

Total earnings for reportable segments			\$ 689,003			\$ 554,608
Other earnings			46,108			63,412
Corporate headquarters expense			(40,655)			(42,207)

Consolidated earnings before income taxes			\$ 694,456			\$ 575,813

Other significant items

	Nine months ended September 30,					
	2001			2000		
	Segment Totals	Corporate	Consolidated Totals	Segment Totals	Corporate	Consolidated Totals
Interest Expense	\$ -	\$ 38	\$ 38	\$ -	\$ 354	\$ 354
Expenditures for assets	30,506	100,863	131,369	117,650	15,456	133,106
Depreciation and amortization	117,079	87,697	204,776	123,729	101,256	224,985

Geographic Information

	2001				2000			
	Revenues		Long-Lived Assets		Revenues		Long-Lived Assets	
United States	\$ 3,939,862	\$ 1,263,064	\$ 4,078,743	\$ 1,411,409				
France	981,620		1,022,465					
Other countries	2,703,567		2,694,579					
	\$ 7,625,049	\$ 1,263,064	\$ 7,795,787	\$ 1,411,409				
	=====	=====	=====	=====				

Major Customers

Customer A (Guardian)	\$ 2,805,913	\$ 1,365,181
Customer B (Guardian)	-	969,341
All other customers	4,819,136	5,461,265
	-----	-----
	\$ 7,625,049	\$ 7,795,787
	=====	=====

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

RESULTS OF OPERATIONS

Gross revenue from operations

For the nine month period ended September 30, 2001 net sales decreased \$170,738 (2.2%) versus the comparable period in 2000. The Guardian Laboratories division ("Guardian") had a sales decrease of \$63,644 (1.0%) while the Eastern Chemical subsidiary ("Eastern") had a sales decrease of \$107,094 (9.1%).

For the three month period ended September 30, 2001, revenue increased \$259,272 (13.4%) over the comparable period in 2000. Guardian sales increased \$266,676 (16.7%), while Eastern sales decreased \$7,404 (2.2%).

The decrease in Guardian's sales for the nine month period is believed to be due to a slight decline in demand for Guardian's products resulting from the economic slowdown taking place both in the United States as well as in many markets overseas. The increase in Guardian's sales for the three month period ended September 30, 2001 is believed to be due to normal fluctuations in the purchasing patterns of its customers. The decline in Eastern's sales for both the nine month period and the 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 decreased to 47.7% for the nine months ended September 30, 2001 from 48.6% for the comparable period ended September 30, 2000. For the three month period ended September 30, 2001 compared to the three month period ended September 30, 2000 the cost of sales as a percentage of sales decreased to 46.2% from 47.2%. The decreases was mainly due to a decrease in raw material costs in the nine and three month period ended September 30, 2001 as compared to the nine and three month period ended September 30, 2000.

Operating Expenses

Operating expenses increased \$107,980 (6.6%) in the nine months ended September 30, 2001 compared to the comparable period in 2000. For

the three months ended September 30, 2001 operating expenses increased \$22,285 (4.3%) over the comparable period in 2000. These increases were primarily due to changes in payroll related costs for the nine and three month period ended September 30, 2001 as compared to the nine and three month period ended September 30, 2000.

Investment income

Investment income increased \$31,993 (20.7%) for the nine months ended September 30, 2001 as compared to the comparable period in 2000 and decreased \$8,664 (13.6%) for the three months ended September 30, 2001 as compared to the comparable period in 2000. The increase for the nine month period was a result of an increase in temporary investments during this period. 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 \$37,260 (4.0%) for the nine months ended September 30, 2001 when compared to the comparable period in 2000, and increased \$45,500 (21.2%) for the three months ended September 30, 2001 when compared to the comparable period in 2000. The decrease is due to decreased earnings before taxes of \$103,113 for the nine months ended September 30, 2001 and the increase is due to an increase in earnings before taxes of \$118,643 for the three months ended September 30, 2001.

LIQUIDITY AND CAPITAL RESOURCES

Working capital increased from \$6,882,794 at December 31, 2000 to \$8,542,125 at September 30, 2001. The current ratio increased from 7.8 to 1 at December 31, 2000 to 15.8 to 1 at September 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 increased \$337,058 (20.7%) for the nine months ended September 30, 2001 as compared the comparable period in 2000. This increase is mainly due to a decrease in inventory for the nine months ended September 30, 2001.

Cash flows used in investing activities increased \$537,834 (23.8%) in the nine months ended September 30, 2001 when compared to the comparable period in 2000. This increase is mainly due to additional investments in marketable securities.

Cash flows used in financing activities increased \$29,123 (7.9%) in the nine months ended September 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: November 2, 2001