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UNITED GUARDIAN INC  
Form 10QSB  
May 08, 2007

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, 2007  
-----

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

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

Commission File Number: 1-10526  
-----

UNITED-GUARDIAN, INC.

-----  
(Exact name of registrant 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

-----  
(Registrant's telephone number)

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

Indicate by check mark whether the registrant (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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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)

Yes  No

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

Indicate by check mark 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:

4,942,539 shares of common stock,  
par value \$.10 per share,  
(as of May 1, 2007)

Transitional Small Business Disclosure Format (Check one): Yes  No

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UNITED-GUARDIAN, INC.

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Part I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

UNITED-GUARDIAN, INC.  
CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

	THREE MONTHS ENDED MARCH 31,	
	2007	2006
	-----	-----
Revenue:		
Net sales	\$ 4,227,426	\$ 2,864,797
	-----	-----
Costs and expenses:		
Cost of sales	1,813,026	1,352,611
Operating expenses	730,206	641,124
	-----	-----
	2,543,232	1,993,735
	-----	-----
Income from operations	1,684,194	871,062
Other income (expense):		
Investment income	125,393	80,423
Other	(42)	-
	-----	-----
Income before income taxes	1,809,545	951,485
Provision for income taxes	649,500	329,500
	-----	-----
Net income	\$ 1,160,045	\$ 621,985
	=====	=====
Earnings per common share (basic and diluted)	\$ .23	\$ .13
	=====	=====
Weighted average shares - basic	4,942,289	4,940,183
	=====	=====
Weighted average shares - diluted	4,944,876	4,944,311
	=====	=====

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See notes to consolidated financial statements

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## UNITED-GUARDIAN, INC. CONSOLIDATED BALANCE SHEETS

	MARCH 31, 2007	DECEMBER 31, 2006
ASSETS	(UNAUDITED)	(AUDITED)
Current assets:		
Cash and cash equivalents	\$ 3,523,510	\$ 3,027,486
Temporary investments	534,681	527,825
Marketable securities	7,424,101	7,346,653
Accounts receivable, net of allowance for doubtful accounts of 47,000 at March 31, 2007 and December 31, 2006, respectively	2,060,327	1,421,788
Inventories (net)	1,331,777	1,923,068
Prepaid expenses and other current assets	265,300	165,288
Deferred income taxes	524,661	534,761
Total current assets	15,664,357	14,946,869
Property, plant and equipment:		
Land	69,000	69,000
Factory equipment and fixtures	3,156,761	3,119,797
Building and improvements	2,161,419	2,161,418
Waste disposal plant	133,532	133,532
	5,520,712	5,483,747
Less: Accumulated depreciation	4,682,598	4,634,954
	838,114	848,793
Other assets		
	148,430	148,430
	\$ 16,650,901	\$ 15,944,092

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See notes to consolidated financial statements

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## UNITED-GUARDIAN, INC. CONSOLIDATED BALANCE SHEETS

	MARCH 31, 2007	DECEMBER 31, 2006
	----- (UNAUDITED)	----- (AUDITED)
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Dividends payable	\$ -	\$1,087,271
Accounts payable	169,039	222,625
Current loans payable	7,988	7,988
Taxes payable	594,929	65,438
Accrued expenses	724,782	579,913
	-----	-----
Total current liabilities	1,496,738	1,963,235
	-----	-----
Loans payable	12,648	14,645
Accrued pension liability	703,504	706,162
Deferred income taxes	34,360	34,360
	-----	-----
	750,512	755,167
	-----	-----
<b>Stockholders' equity:</b>		
Common stock \$.10 par value, authorized, 10,000,000 shares; 5,004,739 and 5,004,339 shares issued, respectively, and 4,942,539 and 4,942,139 shares outstanding, respectively	500,474	500,434
Capital in excess of par value	3,793,263	3,792,478
Accumulated other comprehensive loss	(549,039)	(566,130)
Retained earnings	11,018,583	9,858,538
Treasury stock, at cost; 62,200 shares	(359,630)	(359,630)
	-----	-----
Total stockholders' equity	14,403,651	13,225,690
	-----	-----
	\$ 16,650,901	\$ 15,944,092
	=====	=====

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## UNITED-GUARDIAN, INC. CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	THREE MONTHS ENDED MARCH 31,	
	2007	2006
Cash flows provided by operating activities:		
Net income	\$ 1,160,045	\$ 621,985
Adjustments to reconcile net earnings to net cash flows from operations:		
Depreciation and amortization	47,644	48,336
Increase in provision for doubtful accounts	-	(10,500)
Increase (decrease) in cash resulting from changes in operating assets and liabilities:		
Accounts receivable	(638,539)	(237,653)
Inventories	591,291	(737,641)
Prepaid expenses and other current and non-current assets	(100,012)	38,615
Accounts payable	(53,586)	294,261
Accrued pension costs	(2,658)	-
Accrued expenses and taxes payable	674,360	136,970
	1,678,545	154,373
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(36,965)	(17,832)
Net change in temporary investments	(6,856)	(579)
Purchase of marketable securities	(50,257)	(33,000)
	(94,078)	(51,411)
Cash flows from financing activities:		
Payment of long term debt	(1,997)	-
Proceeds from exercise of stock options	825	14,040
Dividends paid	(1,087,271)	(1,086,391)
	(1,088,443)	(1,072,351)
Net increase (decrease) in cash and cash equivalents	496,024	(969,389)
Cash and cash equivalents at beginning of period	3,027,486	3,425,593
Cash and cash equivalents at end of period	\$ 3,523,510	\$ 2,456,204

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See notes to consolidated financial statements

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## UNITED-GUARDIAN, INC. CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

1. In the opinion of the Registrant (also referred to hereinafter as 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, 2007 and the results of operations for the three months ended March 31, 2007 and 2006. The accounting policies followed by the Company are set forth in the Company's financial statements included in its Annual Report on Form 10-KSB for the year ended December 31, 2006.

2. The results of operations for the three months ended March 31, 2007 and 2006 are not necessarily indicative of the results to be expected for the full year.

3. Stock-Based Compensation: At March 31, 2007, the Company had two stock-based employee compensation plans, which are more fully described in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2006.

The Company follows the Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 123R, which requires that the fair value of all share-based payments to employees, including grants of employee stock options, be recognized as expense in the financial statements.

At March 31, 2007 the Company had 3,900 share-based awards that were outstanding and exercisable, with a weighted-average exercise price of \$3.42, an aggregate intrinsic value of \$23,016, and a weighted-average remaining term of 5.04 years. All of those options were fully vested as of December 31, 2006. The Company did not grant any options during the three months ended March 31, 2007 and 2006.

As of March 31, 2007 there was no remaining unrecognized compensation cost related to the non-vested share-based compensation arrangements granted under the Company's plans.

The Company did not record any compensation expense during the three months ended March 31, 2007 and 2006 under the provisions of FAS 123R.

The Company received proceeds of \$825 and \$14,040 from options exercised under all share-based payment arrangements for the three months ended March 31, 2007 and 2006 respectively.

#### 4. Marketable Securities

March 31, 2007	Cost	Fair Value	Unrealized Gain/(Loss)
-----	-----	-----	-----
Available for Sale:			
U.S. Treasury and agencies	\$3,001,026	\$3,009,351	\$ 8,325
Fixed income mutual funds	4,269,430	4,161,657	(107,773)
Equity and other mutual funds	231,102	253,093	21,991
	-----	-----	-----
	\$7,501,558	\$7,424,101	\$ (77,457)
	=====	=====	=====



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December 31, 2006	Cost	Fair Value	Unrealized Gain/(Loss)
-----	-----	-----	-----
Available for Sale:			
U.S. Treasury and agencies	\$3,001,026	\$3,003,399	\$ 2,373
Fixed income mutual funds	4,220,084	4,091,754	(128,330)
Equity and other mutual funds	230,192	251,500	21,308
	-----	-----	-----
	\$7,451,302	\$7,346,653	\$ (104,649)
	=====	=====	=====

5. Inventories - Net

Inventories consist of the following:	March 31, 2007	December 31, 2006
	-----	-----
Raw materials and work in process	\$ 275,659	\$ 313,319
Finished products and fine chemicals	1,056,118	1,609,749
	-----	-----
	\$1,331,777	\$1,923,068
	=====	=====

One of the Company's pharmaceutical products, Renacidin Irrigation, is currently manufactured for the Company by a third party that is in the process of relocating Renacidin production to a new manufacturing facility, which requires the approval of the U.S. Food and Drug Administration ("FDA"). In order to avoid running out of product while the application was pending, the Company had brought in sufficient inventory to last until at least the end of 2007, which was when FDA approval had been expected. This resulted in an increase of approximately \$1 million in the Company's finished goods inventory at December 31, 2006 as compared with December 2005. The Company expects all of that inventory to be sold prior to its expiration date. On May 7, 2007, much earlier than expected, the Company received notification that the FDA had approved its application for the new manufacturing facility, and expects production in the new facility to begin late this year or early in 2008. The Company believes that it will have sufficient inventory to last until it receives product from the newly approved facility.

As of March 31, 2007, the Company has reserved \$109,000 for slow moving and obsolete inventory.

6. 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 \$120,009 and \$49,802 for the three months ended March 31, 2007 and 2006, respectively. No payments were made for interest during these periods.

The Company paid dividends of \$1,087,271 and \$1,086,391 for the three months ended March 31, 2007 and 2006, respectively.

7. Income Taxes/FIN 48 Disclosure

The Company adopted the provisions of FIN 48 (see "RECENT ACCOUNTING PRONOUNCEMENTS") on January 1, 2007. The implementation of FIN 48 did not result in any adjustment to the Company's beginning tax positions. The Company continues to fully recognize its tax benefits which are offset by a valuation

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allowance to the extent that it is more likely than not that the deferred tax assets will not be realized. As of January 1, 2007 and March 31, 2007, the Company did not have any unrecognized tax benefits.

The Company files a consolidated Federal income tax return in the U.S. The Company and its subsidiaries file separate income tax returns in New York State. The Internal Revenue Service ("IRS") has examined the Company's U.S. income tax returns through 2004. The Company is subject to examination by the IRS for years 2005 and 2006 and by New York State for years 2003 through 2006.

The Company's policy is to recognize interest and penalties in Other Expense.

8. Comprehensive Income (Loss)

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

	Three months ended March 31,	
	2007	2006
	-----	-----
Net income	\$1,160,045	\$ 621,985
	-----	-----
Other comprehensive income (loss):		
Unrealized gain (loss) on marketable securities during period .....	27,191	(36,727)
	-----	-----
Other comprehensive income gain (loss) before tax	27 190	(36,727)
Income tax expense (benefit) related to other comprehensive income .....	10,100	(13,800)
	-----	-----
Other comprehensive income (loss), net of tax.....	17,091	(22,927)
	-----	-----
Comprehensive income net of tax .....	\$1,177,136	\$ 599,058
	=====	=====

Accumulated other comprehensive income (loss) comprises unrealized gains and losses on marketable securities and liability for pension benefit net of the related tax effect.

9. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share for the three months ended March 31, 2007 and 2006.

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	Three months ended March 31,	
	2007	2006
	-----	-----
Numerator:		
Net income	\$1,160,045	\$ 621,985
	=====	=====
Denominator:		
Denominator for basic earnings per share (weighted average shares)	4,942,289	4,940,183
Effect of dilutive securities:		
Employee stock options	2,587	4,128
	-----	-----
Denominator for diluted earnings per share (adjusted weighted-average shares) and assumed conversions	4,944,876	4,944,311
	=====	=====
Basic and diluted earnings per share	\$ 0.23	\$ 0.13
	=====	=====

10. The company sponsors a non-contributory defined benefit plan for its employees and has adopted FAS 158 (see "RECENT ACCOUNTING PRONOUNCEMENTS") effective December 31, 2006. A measurement period from October 1, 2005 to October 1, 2006 has been used for the year ended December 31, 2006. The following table sets forth the components of the projected net periodic benefit costs for the years ending December 31, 2007 and ended December 31, 2006.

	Projected 2007	2006
	-----	-----
Service cost	\$ 126,132	\$ 111,449
Interest cost	144,358	158,489
Expected return on plan assets	(137,632)	(162,412)
Amortization of net loss	49,051	61,444
Effects of special events	-	91,817
Amortization of prior service costs	7,461	7,461
	-----	-----
Net periodic benefit costs	\$ 189,370	\$ 268,248
	=====	=====

The company has made contributions of \$50,000 to the plan in each of the three months ended March 31, 2007 and 2006. The company expensed \$47,342 and \$44,108 for net periodic benefit costs for the three months ended March 31, 2007 and 2006, respectively.

11. The Company has two reportable business segments: the Guardian Laboratories Division ("Guardian"), which develops and manufactures cosmetic ingredients, personal and health care products, pharmaceuticals and specialty industrial products; and Eastern Chemical Corporation ("Eastern"), a wholly-owned subsidiary of the Company, which distributes a line of fine chemicals, test 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

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in the Annual Report for the year ended December 31, 2006. Segment earnings or losses are based on earnings or losses 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, 2007 and 2006.

	Three months ended March 31,			GUARDIAN
	2007		TOTAL	
	GUARDIAN	EASTERN	TOTAL	GUARDIAN
Revenues from external customers	\$ 3,990,650	\$ 236,776	\$ 4,227,426	\$ 2,581,034
Depreciation and amortization	22,425	-	22,425	22,168
Segment income before income taxes	1,774,870	(7,750)	1,767,120	887,193
Segment assets	3,488,308	420,067	3,908,375	3,292,436
Capital expenditure	36,965	-	36,965	16,713

Reconciliation to Consolidated Amounts

	2007	Three Months Ended
Income before income taxes		
Total earnings for reportable segments	\$ 1,767,120	
Other income, net	125,351	
Corporate headquarters expense	(82,926)	
Consolidated earnings before income taxes	\$ 1,809,545	
Assets		
Total assets for reportable segments	\$ 3,908,375	
Corporate headquarters	12,742,526	
Total consolidated assets	\$16,650,901	

Other Significant items

	Three months ended March 31,			Segment Totals
	2007		Consolidated Totals	
	Segment Totals	Corporate	Consolidated Totals	Segment Totals
Capital expenditures	\$ 36,965	\$ -	\$ 36,965	\$ 16,713
Depreciation and amortization	22,425	25,219	47,644	22,168

Geographic Information

-----

	2007		2006	
	Revenues	Long-Lived Assets	Revenues	Lo
United States	\$ 2,152,086	\$ 838,114	\$ 1,377,758	\$
France	270,984		245,600	
Other countries	1,804,356		1,241,439	
	\$ 4,227,426	\$ 838,114	\$ 2,864,797	\$

	Revenues	
	2007	2006
Major Customers		
Customer A (Guardian)**	\$ 1,638,580	\$ 1,128,726
Customer B (Guardian)**	180,055	168,847
Customer C (Guardian)**	571,803	162,796
All other customers	1,836,988	1,404,428
	\$ 4,227,426	\$ 2,864,797

\*\* At March 31, 2007 Customers A and C had balances approximating 43% and 24% of net accounts receivable, respectively. Customer B did not have an outstanding balance at March 31, 2007. At March 31, 2006 Customers A, B and C had balances approximating 26%, 12% and 5% of net accounts receivable, respectively.

12. Subsequent Events

On May 7, 2007, the Company received notification from the FDA that the Company's application for approval of a new manufacturing facility for Renacidin Irrigation was approved. The Company expects to begin production later this year or early in 2008.

RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," to define fair value, establish a framework for measuring fair value in accordance with generally accepted accounting principles, and expand disclosures about fair value measurements. SFAS No. 157 will be effective for fiscal years beginning after November 15, 2007, which for the Company will be the 2008 calendar (and fiscal) year. The Company is assessing the impact the adoption of SFAS No. 157 will have on the Company's consolidated financial position and results of operations.

In September 2006, the FSAB issued SFAS No. 158, "Employers Accounting for Defined Benefit Pension and other Postretirement Plans". SFAS No. 158 improves

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reporting obligations for pensions by recognizing the over-funded or

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under-funded status of plan as an asset or liability. The Company adopted the initial requirements in its fiscal year ended December 31, 2006. The pronouncement does not change how the plan assets and obligations are measured under SFAS 87 and SFAS 106 nor does it change the approach for measuring the

annual benefit cost reported in earnings. Rather, it eliminates the provisions that permit assets and obligations to be measured as of the date not more than three months prior to the balance sheet date, instead requiring measurement as of the reporting date, which is effective for fiscal year ending December 31, 2008 for the Company. In addition the pronouncement requires previously unrecognized items, such as actuarial gains and unrecognized prior service costs or credits to be recognized in the balance sheet as a component of other comprehensive income (loss).

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option of Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 provides an option to report selected financial assets and financial liabilities using fair value. The standard establishes required presentation and disclosures to facilitate comparisons with companies that use different measurements for similar assets and liabilities. SFAS 159 is effective for fiscal years beginning after November 15, 2007, with early adoption allowed if SFAS 157 is also adopted. The Company is currently evaluating the impact of adopting SFAS 159 on its consolidated financial statements.

On January 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), an interpretation of FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation requires that the Corporation recognize the impact of a tax position in the financial statements if that position is more likely than not of being sustained on audit, based on the technical merits of the position. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure. In accordance with the provisions of FIN 48, any cumulative effect resulting from the change in accounting principle is to be recorded as an adjustment to the opening balance of deficit. The adoption of FIN 48 did not result in a material impact on the Company's financial position or results of operations.

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 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: Guardian and Eastern. Guardian conducts research, product development, manufacturing and marketing of cosmetic ingredients, personal and health care products, pharmaceuticals, and specialty industrial 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 in the United States, and to some hospitals and physicians.

Guardian's pharmaceutical products are distributed primarily in the United States. Its personal care products are marketed worldwide primarily by its marketing partners, the largest of which is International Specialty Products Inc. ("ISP"). Approximately one-half of Guardian's personal care products will be sold to foreign customers, either directly or through its marketing partners.

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 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.

Eastern distributes a 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. Since the Company's business activities and marketing efforts over the past several years have focused increasingly on the Guardian division, the Company has reduced Eastern's inventory levels in order to make it more marketable in the event the Company decides to sell it at some future date. This has resulted in some reduction in sales as compared with previous years. Sales of this division have also declined as a result of increased competition from new and existing competitors.

## Critical Accounting Policies

As disclosed in our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2006, the discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in conformity with U.S. generally accepted accounting principles. The preparation of those financial statements required us to make estimates and assumptions that affect the amount of assets, liabilities, revenues and expenses reported in those financial statements. Those estimates and assumptions can be subjective and complex, and consequently actual results could differ from those estimates and assumptions. Our most critical accounting policies relate to revenue recognition, concentration of credit risk, inventory, pension costs, patents and other intangible assets, and income taxes. Since December 31, 2006, there have been no significant changes to the assumptions and estimates related to those critical accounting policies.

The following discussion and analysis covers material changes in the financial condition of the Company since the year ended December 31, 2006, and a comparison of the results of operations for the three months ended March 31, 2007 and March 31, 2006. This discussion and analysis should be read in conjunction with "Management's Discussion and Analysis or Plan of Operation" included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2006.

## RESULTS OF OPERATIONS

Revenue  
-----

For the three-month period ended March 31, 2007, consolidated revenue increased \$1,362,629 (47.6%) versus the comparable period in 2006. Guardian had a sales increase of \$1,409,616 (54.6%) and Eastern had a sales decrease of \$46,987 (16.6%).

Guardian's increase in sales was primarily attributable to increases in sales in its three main product categories (pharmaceuticals, cosmetic ingredients, and medical products), as discussed below:

(a) Pharmaceuticals: On March 1, 2007 Guardian increased prices on its pharmaceutical products, which resulted in customers purchasing unusually large quantities of product in February in order to avoid the price increase. The result was an increase in sales of \$676,257 (119%) for the three months ended March 31, 2007 when compared with the same period in 2006. This increase was primarily attributable to the price increase. Because of the unusually large orders in February, sales in March were about half of what the average monthly sales would have been had there not been a price increase, and the Company expects sales of these products to continue to be lower for the next few months while its distributors work off the extra inventory, then gradually increase back to normal levels. The Company expects pharmaceutical sales for the full year to be comparable to 2006.

(b) Cosmetic Ingredients: For the three months ended March 31, 2007 Guardian's sales of cosmetic ingredients increased by \$622,438 (37.3%). Most of that increase was attributable to sales to one large distributor for distribution globally. Sales of the Company's line of Lubrajel products increased by \$767,538 (39.6%), again attributable primarily to increased sales to that same distributor. The increase in sales was due to a general increase in business as opposed to any significant increase in the number of new customers,



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and most of the sales increases were attributable to increased sales in Western

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and Eastern Europe and Asia-Pacific. The Company cannot yet determine if such sales increases will continue for the balance of the year.

(c) Medical (non-pharmaceutical) products: Sales of the Company's medical lubricants increased by \$153,976 (42%) for the first three months of 2007 compared with the same period in 2006. This increase was attributable to the steadily increasing demand over the past three years for these products by the Company's existing customers as opposed to sales to any new customers.

The decrease in Eastern sales is believed to be a continuation of the gradual decline in Eastern's sales over the past few years. Some of that decrease is attributable to normal fluctuations in Eastern's business, but much of the decrease was the result of the Company's continuing efforts to reduce Eastern's inventory levels, which has resulted in an inability to fill some orders from existing stock as it might have been able to do in the past. This is part of a continuing effort on the part of the Company to put more of its resources into the growth of Guardian. The Company is monitoring closely the profitability of Eastern and evaluating the advisability of discontinuing that operation, which it intends to do if and when it determines that the Eastern operation is no longer profitable.

### Cost of Sales

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Cost of Sales as a percentage of sales decreased 4.3% from 47.2% for the three months ended March 31, 2006 to 42.9% for the comparable period in 2007. This decrease was primarily due to (a) a decrease in the cost of one of the Company's primary raw materials, and (b) a positive variance in overhead absorption created by an increase in production during the first quarter ended March 31, 2007 when compared with the same period in 2006.

### Operating Expenses

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Operating Expenses increased \$89,082 (13.9%) for the three months ended March 31, 2007 compared with the comparable period in 2006. This increase was attributable to increases in medical costs, legal fees, Board of Director fees, freight costs, and payroll and payroll-related costs.

### Other Income

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Other Income increased \$44,970 (55.9%) for the three months ended March 31, 2007. The increase was mainly attributable to higher investment income, which was the result of higher investment balances and an increase in interest rates.

### Provision for Income Taxes

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The Provision for Income Taxes increased \$320,000 (97.1%) for the three months ended March 31, 2007 when compared with the comparable period in 2006. This increase was due to an \$858,060 (90.2%) increase in earnings before taxes in 2007 as compared with 2006.

The Company's effective income tax rate increased 1.3% from 34.6% for the three months ended March 31, 2006 to 35.9% for the comparable period in 2007.

Differences in the effective income tax rate from the statutory federal income tax rate arise primarily from capital loss carryforwards, state taxes net of federal benefits, and foreign and domestic production tax benefits.

#### LIQUIDITY AND CAPITAL RESOURCES

Working capital increased by \$1,183,985 from \$12,983,634 at December 31, 2006 to \$14,167,619 at March 31, 2007. The current ratio increased from 7.6 to 1 at December 31, 2006 to 10.5 to 1 at March 31, 2007. The increase in the current ratio was primarily due to the effect of a decrease in dividends payable from December 31, 2006 to March 31, 2007 offset by the increases in taxes payable and accrued expenses.

The Company has no commitments for any further significant capital expenditures during the remainder of 2007, and believes that its working capital is and will continue to be sufficient to support its operating requirements for at least the next twelve months.

The Company generated cash from operations of \$1,678,545 and \$154,373 for the three months ended March 31, 2007 and March 31, 2006, respectively. The increase was primarily due to increases in net income from operations, inventory, and accrued expenses, offset by a decrease in accounts receivable.

During the three-month period ended March 31, 2007 and March 31, 2006, \$94,078 and \$51,411 was used in investment activities, respectively. The change is mainly due to the reinvestment of investment income.

Cash used in financing activities was \$1,088,443 and \$1,072,351 for the three months ended March 31, 2007 and March 31, 2006, respectively. The increase was due to a decrease in proceeds from the exercise of stock options in 2007 compared with 2006.

#### 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 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 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.

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PART II - OTHER INFORMATION

- ITEM 1 - LEGAL PROCEEDINGS: NONE
- 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 Kenneth H. Globus, President and principal executive officer of the Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Robert S. Rubinger, Chief Financial Officer of the Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Kenneth H. Globus, President and principal executive officer of the Company, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Robert S. Rubinger, Chief Financial Officer of the Company, 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 during the fiscal quarter ended March 31, 2007. It was filed on March 28, 2007 and related to the issuance of an earnings release by the Company on March 28, 2007.

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/ KENNETH H. GLOBUS

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Kenneth H. Globus  
President

By: /S/ ROBERT S. RUBINGER

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Robert S. Rubinger  
Chief Financial Officer

Date: May 8, 2007

