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UNITED GUARDIAN INC
Form 10QSB
November 05, 2004

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 September 30, 2004

_____ 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 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 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:

4,929,539

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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 EARNINGS
(UNAUDITED)

| | NINE MONTHS ENDED SEPTEMBER 30, | | THREE MONTHS ENDED SEPTEMBER 30, | |
|---|------------------------------------|--------------|-------------------------------------|--------------|
| | 2004 | 2003 | 2004 | 2003 |
| | ----- | ----- | ----- | ----- |
| Revenue: | | | | |
| Net sales | \$ 8,977,454 | \$ 8,632,494 | \$ 2,987,383 | \$ 2,315,417 |
| | ----- | ----- | ----- | ----- |
| Costs and expenses: | | | | |
| Cost of sales | 4,001,219 | 4,018,227 | 1,402,404 | 964,711 |
| Operating expenses | 1,898,225 | 1,829,687 | 550,738 | 566,879 |
| | ----- | ----- | ----- | ----- |
| | 5,899,444 | 5,847,914 | 1,953,142 | 1,531,590 |
| | ----- | ----- | ----- | ----- |
| Income from operations | 3,078,010 | 2,784,580 | 1,034,241 | 783,827 |
| | ----- | ----- | ----- | ----- |
| Other income (expense): | | | | |
| Investment income | 160,267 | 118,291 | 53,855 | 39,127 |
| Gain on sale of assets | - | 500 | - | - |
| Other | (17) | (25) | - | - |
| | ----- | ----- | ----- | ----- |
| Income before income taxes | 3,238,260 | 2,903,346 | 1,088,096 | 822,954 |
| | ----- | ----- | ----- | ----- |
| Provision for income taxes | 1,157,000 | 1,032,000 | 389,000 | 290,000 |
| | ----- | ----- | ----- | ----- |
| Net income | \$ 2,081,260 | \$ 1,871,346 | \$ 699,096 | \$ 532,954 |
| | ===== | ===== | ===== | ===== |
| Earnings per common share (basic and diluted) | \$ 0.42 | \$ 0.38 | \$ 0.14 | \$ 0.11 |
| | ===== | ===== | ===== | ===== |
| Weighted average shares - basic | 4,927,688 | 4,892,737 | 4,929,539 | 4,910,022 |
| | ===== | ===== | ===== | ===== |
| Weighted average shares - diluted | 4,937,223 | 4,910,370 | 4,937,237 | 4,930,761 |
| | ===== | ===== | ===== | ===== |

See notes to financial statements

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CONSOLIDATED BALANCE SHEETS

| | SEPTEMBER 30, 2004 | DECEMBER 31, 2003 |
|---|-----------------------|--|
| ASSETS | (UNAUDITED) | (DERIVED FROM AUDITED FINANCIAL STATEMENTS) |
| Current assets: | | |
| Cash and cash equivalents | \$ 4,048,077 | \$ 2,710,029 |
| Temporary investments | 1,000,625 | 1,615,751 |
| Marketable securities | 6,124,386 | 6,098,986 |
| Accounts receivable, net of allowance for doubtful accounts of \$27,000 at September 30, 2004 and December 31, 2003 respectively | 1,326,249 | 1,007,055 |
| Inventories (net) | 1,377,860 | 1,093,312 |
| Prepaid expenses and other current assets | 213,310 | 264,978 |
| Deferred income taxes | 234,217 | 207,817 |
| Total current assets | 14,324,724 | 12,997,928 |
| Property, plant and equipment: | | |
| Land | 69,000 | 69,000 |
| Factory equipment and fixtures | 2,934,171 | 2,825,125 |
| Building and improvements | 2,081,497 | 2,068,752 |
| Waste disposal plant | 133,532 | 133,532 |
| | 5,218,200 | 5,096,409 |
| Less: Accumulated depreciation | 4,220,718 | 4,070,158 |
| | 997,482 | 1,026,251 |
| Other assets: | | |
| Processes and patents, net of accumulated amortization of \$981,797 and \$981,732 at September 30, 2004 and December 31, 2003, respectively | - | 65 |
| Other | 700 | 700 |
| | 700 | 765 |
| | \$ 15,322,906 | \$ 14,024,944 |

See notes to financial statements

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| | SEPTEMBER 30, 2004 | DECEMBER 31, 2003 |
|---|-----------------------|--|
| LIABILITIES AND STOCKHOLDERS' EQUITY | (UNAUDITED) | (DERIVED FROM AUDITED FINANCIAL STATEMENTS) |
| Current liabilities: | | |
| Dividends payable | \$1,232,385 | \$ 737,736 |
| Accounts payable | 198,521 | 309,921 |
| Accrued expenses | 322,433 | 350,769 |
| Taxes payable | 114,456 | - |
| | ----- | ----- |
| Total current liabilities | 1,867,795 | 1,398,426 |
| | ----- | ----- |
| Deferred income taxes | 10,000 | 10,000 |
| | ----- | ----- |
| Stockholders' equity: | | |
| Common stock \$.10 par value, authorized, 10,000,000 shares; 4,991,739 and 4,984,439 shares issued, respectively; 4,929,539 and 4,922,239 shares outstanding, respectively | 499,174 | 498,444 |
| Capital in excess of par value | 3,740,613 | 3,717,160 |
| Accumulated other comprehensive loss | (75,079) | (30,614) |
| Retained earnings | 9,640,033 | 8,791,158 |
| Treasury stock, at cost; 62,200 shares | (359,630) | (359,630) |
| | ----- | ----- |
| Total stockholders' equity | 13,445,111 | 12,616,518 |
| | ----- | ----- |
| | \$ 15,322,906 | \$ 14,024,944 |
| | ===== | ===== |

See notes to financial statements

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| | NINE MONTHS ENDED SEPTEMBER 30, | |
|---|------------------------------------|--------------|
| | 2004 | 2003 |
| | ----- | ----- |
| Cash flows provided by operating activities: | | |
| Net income | \$ 2,081,260 | \$ 1,871,346 |
| Adjustments to reconcile net earnings to net cash flows from operations: | | |
| Depreciation and amortization | 150,625 | 149,349 |
| Amortization of bond premium | - | 5,548 |
| Net gain on sale of equipment | - | (500) |
| Provision for doubtful accounts | - | 11,406 |
| Provision for inventory obsolescence | (91,000) | 125,800 |
| (Increase) decrease in assets: | | |
| Accounts receivable | (319,194) | (344,831) |
| Inventories | (193,548) | 65,567 |
| Prepaid expenses and other current and non-current assets | 51,668 | 168,576 |
| Increase (decrease) in liabilities: | | |
| Accounts payable | (111,400) | 31,539 |
| Accrued expenses and taxes payable | 86,120 | 71,623 |
| | ----- | ----- |
| Net cash provided by operating activities | 1,654,531 | 2,155,423 |
| | ----- | ----- |
| Cash flows from investing activities: | | |
| Acquisition of property, plant and equipment | (121,791) | (90,068) |
| Proceeds from sale of equipment | - | 500 |
| Net change in temporary investments | 615,126 | 1,871,751 |
| Proceeds from sale of marketable securities | 2,032,274 | 480,000 |
| Purchase of marketable securities | (2,128,539) | (5,561,073) |
| | ----- | ----- |
| Net cash provided by (used in) investing activities | 397,070 | (3,298,890) |
| | ----- | ----- |
| Cash flows from financing activities: | | |
| Proceeds from exercise of stock options | 24,183 | 113,835 |
| Dividends paid | (737,736) | (488,114) |
| | ----- | ----- |
| Net cash used in financing activities | (713,553) | (374,279) |
| | ----- | ----- |
| Net increase (decrease) in cash and cash equivalents | 1,338,048 | (1,517,746) |
| Cash and cash equivalents at beginning of period | 2,710,029 | 3,184,599 |
| | ----- | ----- |
| Cash and cash equivalents at end of period | \$ 4,048,077 | \$ 1,666,853 |
| | ===== | ===== |

See notes to financial statements

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statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of September 30, 2004 and the results of operations and cash flows for the three and nine months ended September 30, 2004 and 2003. The accounting policies followed by the Company are set forth in the Company's financial statements included in its December 31, 2003 Annual Report to Shareholders.

2. The results of operations for the three and nine months ended September 30, 2004 and 2003 are not necessarily indicative of the results to be expected for the full year.

3. Stock-Based Compensation: At its meeting on March 19, 2004 the Board of Directors of the Company approved the adoption of a new stock-based employee compensation plan to replace the previous two stock-based employee compensation plans that expired in 2003. The new plan covers both employees and Directors. The adoption and implementation of new plan was ratified by the shareholders of the Company at the Company's annual meeting of shareholders on May 19, 2004. As permitted under FAS 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 arrangements 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 September 30, | | Three months e September 3 |
|---|------------------------------------|-------------|-------------------------------|
| | 2004 | 2003 | 2004 |
| Reported net income | \$2,081,260 | \$1,871,346 | \$699,096 |
| Stock-based employee compensation expense included in reported net income, net of related tax effects | 0 | 0 | 0 |
| Stock-based employee compensation determined under the fair value based method, net of related tax effect | 0 | (15,957) | 0 |
| Pro forma net income | \$2,081,260 | \$1,855,389 | \$699,096 |
| Earnings per share (basic and diluted) | | | |
| As reported | \$.42 | \$.38 | \$.14 |
| Pro forma | \$.42 | \$.38 | \$.14 |

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4. Inventories - Net

| | | |
|---------------------------------------|-----------------------|----------------------|
| Inventories consist of the following: | September 30, 2004 | December 31, 2003 |
|---------------------------------------|-----------------------|----------------------|

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| | | |
|--------------------------------------|-------------|-------------|
| Raw materials and work in process | \$ 491,590 | \$ 225,443 |
| Finished products and fine chemicals | 886,270 | 867,869 |
| | ----- | ----- |
| | \$1,377,860 | \$1,093,312 |
| | ===== | ===== |

At September 30, 2004 and December 31, 2003, the Company has reserved \$128,000 and \$219,000 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 \$1,005,977 and \$801,295 for the nine months ended September 30, 2004 and 2003, respectively.

6. Comprehensive Income (Loss)

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

| | Nine months ended September 30, 2004 | 2003 | Three months ended S 2004 | |
|--|---|-------------|------------------------------|-------|
| | ----- | ----- | ----- | |
| Net income | \$2,081,260 | \$1,871,346 | \$699,096 | \$5 |
| | ----- | ----- | ----- | ----- |
| Other comprehensive income (loss) | | | | |
| Unrealized gain (loss) on marketable securities | (70,866) | 47,795 | 7,270 | |
| | ----- | ----- | ----- | |
| Income tax benefit on comprehensive gain (loss) | (26,400) | 17,827 | 2,800 | |
| | ----- | ----- | ----- | |
| Other comprehensive income (loss) | (44,466) | 29,968 | 4,470 | |
| | ----- | ----- | ----- | |
| Comprehensive income | \$2,036,794 | \$1,901,314 | \$703,566 | \$5 |
| | ===== | ===== | ===== | ===== |

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

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7. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share at September 30, 2004 and 2003.

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| | Nine months ended September 30, | | Three months ended September 30, | |
|---|------------------------------------|-------------|-------------------------------------|------|
| | 2004 | 2003 | 2004 | 2003 |
| Numerator: | | | | |
| Net income | \$2,081,260 | \$1,871,346 | \$ 669,096 | \$ 5 |
| Denominator: | | | | |
| Denominator for basic earnings per share (weighted average shares) | 4,927,688 | 4,892,737 | 4,929,539 | 4,9 |
| Effect of dilutive securities: | | | | |
| Employee stock options | 9,535 | 17,633 | 7,698 | |
| Denominator for diluted earnings per share (adjusted weighted-average shares) and assumed conversions | 4,937,223 | 4,910,370 | 4,937,237 | 4,9 |
| Basic and diluted earnings per share | \$ 0.42 | \$ 0.38 | \$ 0.14 | \$ |

8. The Company has the following two reportable business segments: Guardian Laboratories and Eastern Chemical. The Guardian segment conducts research, development and manufacturing of cosmetic ingredients, personal and health care products, pharmaceuticals and specialty industrial 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, 2003. 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, 2004 and 2003.

| | | | Nine months ended September 30, |
|----------|---------|-------|---------------------------------|
| | | | 2004 |
| GUARDIAN | EASTERN | TOTAL | GUARDIAN |
| ----- | ----- | ----- | ----- |

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| | | | | |
|--|--------------|------------|--------------|--------------|
| Revenues from external customers | \$ 8,119,929 | \$ 857,525 | \$ 8,977,454 | \$ 7,824,875 |
| Depreciation and amortization | 70,196 | - | 70,196 | 64,852 |
| Segment income (loss) before income taxes | 3,251,553 | (52,620) | 3,198,933 | 2,894,764 |
| Segment assets | 3,018,158 | 362,946 | 3,381,104 | 2,076,219 |
| Capital expenditure | 106,556 | - | 106,556 | 62,808 |

Reconciliation to Consolidated Amounts

| | |
|---|-----------------------|
| Income before income taxes | ----- |
| Total earnings for reportable segments | \$ 3,198,933 |
| Other income, net | 160,250 |
| Corporate headquarters expense | (120,923) |
| Consolidated earnings before income taxes | \$ 3,238,260 ===== |
| Assets | ----- |
| Total assets for reportable segments | \$ 3,381,104 |
| Corporate headquarters | 11,941,802 |
| Total consolidated assets | \$15,322,906 ===== |

| | | | | |
|--|--------------|------------|--------------|---------------------------------|
| | 2004 | | | Three months ended September 30 |
| | ----- | ----- | ----- | ----- |
| | GUARDIAN | EASTERN | TOTAL | GUARDIAN |
| | ----- | ----- | ----- | ----- |
| Revenues from external customers | \$ 2,697,595 | \$ 289,788 | \$ 2,987,383 | \$ 2,086,738 |
| Depreciation and amortization | 20,429 | - | 20,439 | 19,045 |
| Segment income (loss) before income taxes | 1,085,557 | (6,566) | 1,078,991 | 767,923 |

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| | |
|---|-----------------------|
| Earnings before income taxes | ----- |
| Total income for reportable segments | \$ 1,078,991 |
| Other income, net | 53,855 |
| Corporate headquarters expense | (44,750) |
| Consolidated earnings before income taxes | \$ 1,088,096 ===== |

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Other significant items

| | 2004 | | | Nine Months ended September 30, |
|-------------------------------|-------------------|-----------|------------------------|---------------------------------|
| | Segment Totals | Corporate | Consolidated Totals | Segment Totals |
| Expenditures for assets | \$106,556 | \$ 15,235 | \$121,791 | \$ 62,808 |
| Depreciation and amortization | 70,196 | 80,429 | 150,625 | 64,852 |

Geographic Information

| | 2004 | | 2003 | |
|-----------------|--------------|----------------------|--------------|-------|
| | Revenues | Long-Lived Assets | Revenues | Lo |
| United States | \$ 4,979,126 | \$ 997,482 | \$ 4,384,781 | \$ |
| France | 1,117,867 | | 1,069,869 | |
| Other countries | 2,880,461 | | 3,177,844 | |
| | \$ 8,977,454 | \$ 997,482 | \$ 8,632,494 | \$ |
| | ===== | ===== | ===== | ===== |

Major Customers

| | | |
|------------------------|--------------|--------------|
| Customer A (Guardian)* | \$ 3,654,792 | \$ 3,523,475 |
| Customer B (Guardian) | 959,980 | 876,078 |
| All other customers | 4,362,682 | 4,232,941 |
| | \$ 8,977,454 | \$ 8,632,494 |
| | ===== | ===== |

* At September 30, 2004 Customer A had a balance approximating 32% of accounts receivable.

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

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

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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 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 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 end users for use in a wide variety of applications. Since the Company's business activities and marketing efforts over the past several years

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have focused increasingly on the Guardian division, which the Company believes has greater growth potential, the Company has reduced Eastern's inventory levels in order to make the subsidiary more marketable in the event the Company decided to sell the Eastern operation. This has resulted in some reduction in sales for this division. Sales of this division have also declined as a result of increased competition from new and existing competitors that are making increased use of the Internet as a selling tool. Recently the Company entered into discussions with several companies that expressed interest in purchasing the Eastern operation, and is continuing discussions with one Company in particular that could be a likely candidate to purchase the operation. Although there is not yet any firm agreement between the parties, the Company is hopeful that an agreement can be reached shortly.

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, 2003, and a comparison of the results of operations for the three and nine month periods ended September 30, 2004 and September 30, 2003. 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, 2003.

RESULTS OF OPERATIONS

Gross revenue from operations -----

For the nine month period ended September 30, 2004 net sales increased \$344,960 (4.0%) versus the comparable period in 2003. The Guardian Laboratories division ("Guardian") had a sales increase of \$295,054 (3.8%) while the Eastern Chemical subsidiary ("Eastern") had a sales increase of \$49,906 (6.2%).

For the three month period ended September 30, 2004 net sales increased \$671,966 (29.0%) over the comparable period in 2003. Guardian sales increased \$610,857 (29.3%), while Eastern sales increased \$61,109 (26.7%).

The increase in Guardian's and Eastern's sales for the three and nine month periods is believed to be due mainly to normal fluctuations in purchasing patterns of its customers.

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Cost of sales -----

Cost of sales as a percentage of sales decreased to 44.6% for the nine months ended September 30, 2004 from 46.5% for the comparable period ended September 30, 2003. This decrease is mainly due to a favorable production variance. 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 44.6% for the comparable period in the current year.

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For the three month period ended September 30, 2004 compared to the three month period ended September 30, 2003 the cost of sales as a percentage of sales increased to 46.5% from 41.7%. For the three months ended September 30, 2003, cost of sales as a percentage of sales would have been 54.7% as compared to 46.9% for the comparable period in the current year. This decrease for the three month period ended September 30, 2004 is mainly due to a favorable production variance.

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.

Operating Expenses

Operating expenses increased \$68,538 (3.7%) for the nine months ended September 30, 2004 compared to the comparable period in 2003. For the three month period ended September 30, 2004 operating expenses decreased \$16,141 (2.8%) over the comparable period in 2003. The increase for the nine month period was primarily due to the net effect of increased insurance costs and a one time reserve for the payment of a civil fine in September of 2003 (see "Legal Proceedings" section of the Company's Form 10-QSB for the period ended September 30, 2003). For the three month period decreases in expenses were mainly due to the aforementioned civil penalty that was accrued in September 2003.

Investment income

Investment income increased \$41,976 (35.5%) for the nine months ended September 30, 2004 as compared to the comparable period in 2003, and \$14,728 (37.6%) for the three months ended September 30, 2004 when compared to the comparable period in 2003. These increases were mainly attributable to an increase in interest rates. Investment income is recorded net of brokerage fees.

Provision for income taxes

The provision for income taxes increased \$125,000 (12.1%) for the nine months ended September 30, 2004 when compared to the comparable period in 2003, and \$99,000 (34.1%) for the three months ended September 30, 2004 when compared to the comparable period in 2003. These increases are due to increased earnings before taxes of \$334,914 for the nine months ended September 30, 2004 and \$265,142 for the three months ended September 30, 2004.

LIQUIDITY AND CAPITAL RESOURCES

Working capital increased from \$11,599,502 at December 31, 2003 to \$12,465,929 at September 30, 2004. The current ratio decreased from 9.3 to 1 at December 31, 2003 to 7.7 to 1 at September 30, 2004. The decrease in current ratio was due to a \$.25 per share dividend declared in September 2004. The Company has no commitments for any further significant capital expenditures during the remainder of 2004, 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 \$1,654,531 and \$2,155,423 for the nine months ended September 30, 2004 and September 30, 2003 respectively.

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The decrease was primarily due to the increase in inventories and accounts payable.

During the nine month period ended September 30, 2004 \$397,070 was provided by investment activities, as compared to the nine months ended September 30, 2003 when \$3,298,890 was used in investing activities. The change from \$3,298,890 used in investing activities in 2003 to \$397,070 provided by investing activities in 2004 was due to an decrease in purchases of marketable securities (primarily bonds) and redemption of some money market accounts.

Cash used in financing activities was \$713,553 and \$374,279 for the nine months ended September 30, 2004 and September 30, 2003 respectively. The increase is due primarily to an increase in dividends paid during the nine months ended September 30, 2004.

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 Alfred R. Globus, Chairman and Chief Executive Officer of the Company, pursuant to Section 302 of the

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Sarbanes-Oxley Act of 2002

- 31.2 Certification of Kenneth H. Globus, President and Chief Financial of the Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Alfred R. Globus, Chairman and Chief Executive Officer of the Company, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Kenneth H. Globus, President and Chief Financial Officer of the Company, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

b. Reports on Form 8-K

There were two reports on Form 8-K filed during the fiscal quarter ended September 30, 2004: one on August 5, 2004 pertaining to the issuance of an earnings release by the Company on August 5, 2004; the other on September 13, 2004 pertaining to the issuance of a press release announcing the Company's declaration of a special cash dividend.

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

Alfred R. Globus
Chief Executive Officer

By: /s/ Kenneth H. Globus

Kenneth H. Globus
Chief Financial Officer

Date: November 5, 2004