UNITED GUARDIAN INC
Form 10QSB
August 09, 2007

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 June 30, 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 [X] No [ ]

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

Yes [ ] No [X]

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:

4,946,439 shares of common stock,
par value $.10 per share,
(as of August 1, 2007)

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

UNITED-GUARDIAN, INC.

INDEX

1

Part I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

UNITED-GUARDIAN, INC.
CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

	SIX MONTHS ENDED JUNE 30,		THREE MONTHS ENDE JUNE 30,	
	2007	2006	2007	200
Revenue:				
Net sales	$ 7,244,933	$ 5,921,812	$ 3,017,507	$ 3,057
Costs and expenses:				
Cost of sales	3,114,295	2,793,799	1,301,269	1,441
Operating expenses	1,479,617	1,374,458	749,411	733
	4,593,912	4,168,257	2,050,680	2,174
Income from operations	2,651,021	1,753,555	966,827	882
Other income (expense):				
Investment income	285,436	195,102	160,043	114
Loss on sale of marketable securities	-	(349)	-	
Gain on sale of equipment	5,000	-	5,000	
Other	(42)	(227)	-	
Income before income taxes	2,941,415	1,948,081	1,131,870	996
Provision for income taxes	1,046,100	675,700	396,600	346
Net income	$ 1,895,315	$ 1,272,381	$ 735,270	$ 650
Earnings per common share (basic and diluted)	$ .38	$ .26	$ .15	$
Weighted average shares - basic	4,943,422	4,941,167	4,944,547	4,942
Weighted average shares - diluted	4,945,382	4,944,600	4,945,877	4,944

See notes to consolidated financial statements

UNITED-GUARDIAN, INC.
CONSOLIDATED BALANCE SHEETS

ASSETS	JUNE 30, 2007 (UNAUDITED)	DECEMBER 31, 2006 (AUDITED)
Current assets:		
Cash and cash equivalents	$ 3,291,118	$ 3,027,486
Temporary investments	541,669	527,825
Marketable securities	7,402,913	7,346,653
Accounts receivable, net of allowance for doubtful accounts of 47,000 at June 30, 2007 and December 31, 2006, respectively	1,260,942	1,421,788
Inventories (net)	1,262,496	1,923,068
Prepaid expenses and other current assets	253,026	165,288
Deferred income taxes	557,761	534,761
Total current assets	14,569,925	14,946,869
Property, plant and equipment:		
Land	69,000	69,000
Factory equipment and fixtures	3,187,780	3,119,797
Building and improvements	2,283,717	2,161,418
Waste disposal plant	133,532	133,532
	5,674,029	5,483,747
Less: Accumulated depreciation	4,724,296	4,634,954
	949,733	848,793
Other assets	148,430	148,430
	$ 15,668,088	$ 15,944,092

See notes to consolidated financial statements

UNITED-GUARDIAN, INC.
CONSOLIDATED BALANCE SHEETS

	JUNE 30, 2007 (UNAUDITED)	DECEMBER 31, 2006 (AUDITED)
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Dividends payable	$ -	$1,087,271
Accounts payable	170,331	222,625
Current loans payable	7,988	7,988
Taxes payable	114,529	65,438
Accrued expenses	893,401	579,913
Total current liabilities	1,186,249	1,963,235
Loans payable	10,651	14,645
Accrued pension liability	675,847	706,162
Deferred income taxes	34,360	34,360
	720,858	755,167
Stockholders' equity:		
Common stock $.10 par value, authorized, 10,000,000 shares; 5,008,639 and 5,004,339 shares issued, respectively, and 4,946,439 and 4,942,139 shares outstanding, respectively	500,864	500,434
Capital in excess of par value	3,806,205	3,792,478
Accumulated other comprehensive loss	(604,827)	(566,130)
Retained earnings	10,418,369	9,858,538
Treasury stock, at cost; 62,200 shares	(359,630)	(359,630)
Total stockholders' equity	13,760,981	13,225,690
	$ 15,668,088	$ 15,944,092

See notes to consolidated financial statements

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

	SIX MONTHS ENDED JUNE 30, 2007	SIX MONTHS ENDED JUNE 30, 2006
Cash flows provided by operating activities:		
Net income	$ 1,895,315	$ 1,272,381
Adjustments to reconcile net income to net cash flows from operations:		
Depreciation and amortization	103,367	94,512
Gain on sale of equipment	(5,000)	-
Realized loss on sale of marketable securities	-	349
Provision for doubtful accounts	-	(11,212)
Reduction in inventory obsolescence	-	19,000
Increase (decrease) in cash resulting from changes in operating assets and liabilities:		
Accounts receivable	160,846	36,286
Inventories	660,572	(502,300)
Prepaid expenses and other current and non-current assets	(87,738)	(42,373)
Accounts payable	(52,294)	42,016
Accrued pension costs	(30,315)	-
Accrued expenses and taxes payable	362,579	156,352
Net cash provided by operating activities	3,007,332	1,065,011
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(204,307)	(26,905)
Proceeds from sale of equipment	5,000	-
Net change in temporary investments	(13,844)	(303,219)
Purchase of marketable securities	(117,957)	(93,803)
Proceeds form sale of marketable securities	-	600,374
Net cash (used in) provided by investing activities	(331,108)	176,447
Cash flows from financing activities:		
Payment of long term debt	(3,994)	-
Proceeds from exercise of stock options	14,157	14,040
Dividends paid	(2,422,755)	(2,321,926)
Net cash used in financing activities	(2,412,592)	(2,307,886)
Net increase (decrease) in cash and cash equivalents	263,632	(1,066,428)
Cash and cash equivalents at beginning of period	3,027,486	3,425,593
Cash and cash equivalents at end of period	$ 3,291,118	$ 2,359,165

See notes to consolidated financial statements

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 June 30, 2007 and the results of operations for the six months and three months ended June 30, 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 six months and three months ended June 30, 2007 and 2006 are not necessarily indicative of the results to be expected for the full year.

3. Stock-Based Compensation: At June 30, 2007, the Company had a stock-based compensation plan for its employees and Directors, which is 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 June 30, 2007 the Company had no share-based awards outstanding and exercisable and did not grant any options during the six months ended June 30, 2007.

As of June 30, 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 six months and three months ended June 30, 2007 and 2006 under the provisions of FAS 123R.

The Company received proceeds of $14,157 from the exercise of options for a total of 4,300 shares that were exercised during the six months ended June 30, 2007. The intrinsic value of those shares was $40,217. For the six months ended June 30, 2006 the Company received $14,040 from options exercised under all share-based payment arrangements.

4. Marketable Securities

June 30, 2007	Cost	Fair Value	Unrealized Gain/(Loss)
Available for Sale:			
U.S. Treasury and agencies	$3,001,026	$2,993,559	$ (7,467)
Fixed income mutual funds	4,335,697	4,140,613	(195,084)
Equity and other mutual funds	232,536	268,741	36,205
	$7,569,259	$7,402,913	$ (166,346)

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:	June 30, 2007	December 31, 2006
Raw materials and work in process	$ 409,403	$ 313,319
Finished products and fine chemicals	853,093	1,609,749
	$1,262,496	$1,923,068

One of the Company's pharmaceutical products, Renacidin Irrigation, is currently manufactured for the Company by a third party that had relocated production to a new facility, necessitating the filing of an application by the Company to the U.S. Food and Drug Administration ("FDA") to begin production in the new facility. While this application was pending the Company purchased additional inventory, which resulted in an increase of approximately $1 million in the Company's finished goods inventory at December 31, 2006 as compared with December 31, 2005. At June 30, 2007 the Company had approximately $475,000 of Renacidin Irrigation remaining. In May, 2007 the Company received FDA approval of its application.

As of June 30, 2007, and December 31, 2006 the Company had reserves of $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 $997,010 and $551,122 for the six months ended June 30, 2007 and 2006, respectively. No payments were made for interest during these periods.

The Company paid dividends of $2,422,755 and $2,321,926 for the six months ended June 30, 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 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 June 30, 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 i n 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:

	Six months ended June 30, 2007	2006	Three mo 20
Net income	$1,895,315	$1,272,381	$ 735,2
Other comprehensive income (loss):			
Unrealized gain (loss) on marketable securities during period	(61,697)	(99,078)	(88,8
Less reclassification adjustment for net losses included in net income	-	374	-
Other comprehensive income gain (loss) before tax	(61,697)	(98,704)	(88,8
Income tax expense (benefit) related to other comprehensive income	(23,000)	(37,800)	(33,1
Other comprehensive income (loss), net of tax......	(38,697)	(60,904)	(55,7
Comprehensive income net of tax	$1,856,618	$1,211,477	$ 679,4

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

At December 31, 2006, the Company included an adjustment to initially apply SFAS 158 of $500,481 in it's 2006 Comprehensive Income calculation in the Consolidated Statement of Stockholders' Equity. This amount should not have been included in the December 31, 2006 comprehensive income calculation. The Company intends to correct the comprehensive income presentation included in the Statement of Changes in Stockholders' Equity for the year ended December 31, 2006 in the next Form 10-KSB filing. This does not affect total stockholder's equity at December 31, 2006. The Comprehensive Income for the year ended December 31, 2006 is as follows:

	For the year ended December 31, 2006	
	As Reported	As Revised
Adjustments to initially apply SFAS 158, net of deferred income tax benefit of $297,800	$ (500,481)	$ -
Unrealized loss on marketable securities, net of deferred income tax of $11,200	18,716	18,716
Net Income	2,737,232	2,737,232
Comprehensive Income	$ 2,255,467	$ 2,755,948

9. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share for the three and six months ended June 30, 2007 and 2006.

	Six months ended June 30, 2007	Six months ended June 30, 2006	Three m J 2007
Numerator:			
Net income	$1,895,315	$1,272,381	$ 735,270
Denominator:			
Denominator for basic earnings per share (weighted average shares)	4,943,422	4,941,167	4,944,547
Effect of dilutive securities:			
Employee stock options	1,960	3,433	1,330
Denominator for diluted earnings per share (adjusted weighted-average shares) and assumed conversions	4,945,382	4,944,600	4,945,877
Basic and diluted earnings per share	$ 0.38	$ 0.26	$ 0.15

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 - benefit earned	$ 126,132	$ 111,449
Interest cost - projected benefit obligation	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 totaling $125,000 to the plan in each of the six-month periods ended June 30, 2007 and 2006. The Company expensed $94,685 and $88,246 for net periodic benefit costs for the six months ended June 30, 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 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 six and three months ended June 30, 2007 and 2006.

	Six months ended June 30, 2007			
	GUARDIAN	EASTERN	TOTAL	GUARDIAN
Revenues from external customers	$ 6,760,706	$ 484,227	$ 7,244,933	$ 5,384,005
Depreciation and amortization	43,988	-	43,988	42,247
Segment income before income taxes	2,740,625	(11,527)	2,729,098	1,784,295
Segment assets	2,853,295	517,993	3,371,288	3,022,098
Capital expenditure	67,668	-	67,668	18,803

10

Reconciliation to Consolidated Amounts

Six Months Ende

Income before income taxes	2007
Total earnings for reportable segments	$ 2,729,098
Other income, net	290,394
Corporate headquarters expense	(78,077)
Consolidated earnings before income taxes	$ 2,941,415

Assets	
Total assets for reportable segments	$ 3,371,288
Corporate headquarters	12,296,800
Total consolidated assets	$15,668,088

	Three months ended June 30, 2007			
	GUARDIAN	EASTERN	TOTAL	GUARDIAN
Revenues from external customers	$ 2,770,056	$ 247,451	$ 3,017,507	$ 2,802,971
Depreciation and amortization	21,563	-	21,563	20,079
Segment income before income taxes	965,755	(3,777)	961,978	897,102

Reconciliation to Consolidated Amounts

		Three Months E
Income before income taxes	2007	
Total earnings for reportable segments	$ 961,978	
Other income, net	165,043	
Corporate headquarters expense	4,849	
Consolidated earnings before income taxes	$ 1,131,870	

Other Significant items

	Six months ended June 30, 2007			
	Segment Totals	Corporate	Consolidated Totals	Segment Totals
Capital expenditures	$ 67,668	$136,639	$204,307	$ 18,803
Depreciation and amortization	43,988	59,379	103,367	42,247

Geographic Information

	Six Months Ended June 30, 2007		2006	
	Revenues	Long-Lived Assets	Revenues	Lo
United States	$ 3,233,163	$ 949,733	$ 2,413,974	$
France	704,673		732,393	
Other countries	3,307,097		2,775,445	
	$ 7,244,933	$ 949,733	$ 5,921,812	$

	Revenues 2007	2006
Major Customers		
Customer A (Guardian)**	$ 3,057,229	$ 2,085,254
Customer B (Guardian)**	557,001	607,277
All other customers	3,630,703	3,229,281
	$ 7,244,933	$ 5,921,812

** At June 30, 2007 Customers A and B had balances approximating 38% and 15% of net accounts receivable, respectively. At June 30, 2006 Customers A and B had balances approximating 36% and 25% of net accounts receivable, respectively.

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 reporting obligations for pensions by recognizing the over-funded or 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 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 products 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 six and three months ended June 30, 2007 and June 30, 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 six-month period ended June 30, 2007, consolidated revenue increased $1,323,121 (25.6%) versus the comparable period in 2006. Guardian had a sales increase of $1,376,701 (25.5%) and Eastern had a sales decrease of $53,580 (10.0%).

For the three-month period ended June 30, 2007, consolidated revenue decreased $39,508 (1.3%) versus the comparable period in 2006. Guardian had a sales decrease of $32,915 (1.2%) and Eastern had a sales decrease of $6,593 (2.6%).

Guardian's increase in sales for the six months ended June 30, 2007 was primarily attributable to increases in sales in two product lines:

(a) Pharmaceuticals: On March 1, 2007 Guardian increased prices on its pharmaceutical products, which resulted in customers purchasing unusually large quantities in February in advance of the price increase. The result was an increase in sales of $368,000 (32%) for the six months ended June 30, 2007 when compared with the same period in 2006. The Company expects sales of these products to continue to be lower than average each month until the end of the third quarter while its distributors work off the additional inventory, then gradually increase back to normal levels (based on what has happened after price increases in the past). The Company expects pharmaceutical sales for the full year to be comparable to 2006.

(b) Personal Care Products: For the six months ended June 30, 2007 Guardian's sales of personal care products increased by $1,012,000 (30%). That increase was primarily attributable to increased sales to one of the Company's marketing partners for distribution globally. Almost all of that increase in

sales of personal care products was due to increases in sales of the Company's extensive line of Lubrajel-based products. The increase in sales was due to a general increase in demand for these products. The Company cannot yet determine if such sales increases will continue for the balance of the year.

In addition to the large increase in both pharmaceutical and personal care products sales there was also an increase in sales of the Company's medical (non-pharmaceutical) products, which increased by $78,000 (10.0%) for the first six 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.

Guardian's decrease in sales for the three months ended June 30, 2007 compared to the same period in 2006 was primarily due to:

(a) A decrease of $308,000 (52%) in the Company's sales of pharmaceutical products, which was the result of the additional buying that took place in February because of the price increase that went into effect on March 1st (see details above).

(b) A decrease of $75,000 (17%) in sales of its medical (non-pharmaceutical products). The Company believes that this was attributable to normal variability in the buying patterns as opposed to any real decline in demand for these products.

These decreases (plus some other smaller decreases) were almost entirely offset by an increase of $390,000 (22%) in sales of the Company's personal care products. The Company believes that this increase was primarily the result of the timing of orders rather than any significant increase in demand for these products.

The decline in sales of the Company's Eastern Chemical Corporation subsidiary is a result of the continuing implementation of management's previous decision to place more emphasis on, and resources into, the growth of the Company's Guardian Laboratories division. As a result, inventory levels have continued their planned decline, which has resulted in Eastern's inability to fill some orders that it might have been able to fill in the past. The Company continues to closely monitor Eastern and evaluate the advisability of discontinuing that operation.

Cost of Sales

Cost of sales as a percentage of sales decreased 4.2% from 47.2% for the six months ended June 30, 2006 to 43.0% for the comparable period in 2007. For the three months ended June 30, 2006 compared with the three months ended June 30, 2007, cost of sales as a percentage of sales decreased from 47.1% to 43.1%. These decreases are primarily due to (a) a decrease in the cost of one of the Company's primary raw materials; (b) the implementation of a price increase in March, 2007 on one of the Company's pharmaceutical products; and (c) a positive variance in overhead absorption created by an increase in production during the six and three months ended June 30, 2007 when compared with the same period in 2006.

16

Operating Expenses

Operating Expenses increased $105,159 (7.7%) for the six months ended June 30, 2007 compared with the comparable period in 2006. For the three months ended

June 30, 2007 operating expenses increased $16,077 (2.2%) when 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

Other Income increased $95,868 (49.3%) for the six months ended June 30, 2007 and $50,940 (44.6%) for the three months ended June 30, 2007 when compared with the comparable periods in 2006. 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

The provision for income taxes increased $370,400 (54.8%) for the six months ended June 30, 2007 when compared with the comparable period in 2006. This increase is due to a $993,334 (51.0%) increase in earnings before taxes in 2007 compared to 2006.

Provision for income taxes increased $50,400 (14.6%) for the three months ended June 2007 when compared to the comparable period in 2006. This increase was due to a $135,274 (13.6%) increase in earnings before taxes for the three months ended June 30, 2007 when compared with 2006.

The Company's effective income tax rate increased .9% from 34.7% for the six months ended June 30, 2006 to 35.6% for the comparable period in 2007. The Company's effective income taxes increased .3% from 34.7% to 35.0% for the three months ended June 30, 2006 when compared to 2007. Differences in the effective income tax rate from the statutory federal incometax 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 $400,042 from $12,983,634 at December 31, 2006 to $13,383,676 at June 30, 2007. The current ratio increased from 7.6 to 1 at December 31, 2006 to 12.3 to 1 at June 30, 2007. The increase in the current ratio was primarily due to the effect of a decrease in dividends payable from December 31, 2006 to June 31, 2007, partially 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 $3,007,332 and $1,065,011 for the six months ended June 30, 2007 and June 30, 2006, respectively. The increase was primarily due to increases in net income from operations, and accrued expenses, offset by a decrease in inventory and accounts receivable

During the six-month period ended June 30, 2007 $331,108 was used in investing activities, primarily for building improvements and the purchase of equipment. For the six-month period ending June 30, 2006 $176,447 was provided by investing activities, primarily from the sale of marketable securities.

Cash used in financing activities was $2,412,592 and $2,307,886 for the six months ended June 30, 2007 and June 30, 2006, respectively. The increase is mainly due to an increase in dividends paid in the second quarter of $.27 per share in 2007 when compared to $.25 per share in 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.

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:

On July 10, 2007 the Company received a letter from the Market Regulation Department of the National Association of Securities Dealers (the "NASD"), on behalf of the American Stock Exchange, advising the Company that the NASD is conducting a review of trading activity in the Company's common stock from April 2, 2007 through May 7, 2007. In that letter, the NASD requested various documents and information related to the Company's subsequent earnings announcement on May 8, 2007.

Management of the Company is cooperating fully with this review and has already provided to the NASD the information it requested, and has offered to provide any additional information that it needs. The NASD letter states that its inquiry should not be construed as an indication that the NASD has determined that any violations of American Stock Exchange rules or federal securities laws have occurred, or a reflection upon the merits of the securities involved or upon any person who effected transactions in such securities.

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 were two reports on Form 8-K filed during the fiscal quarter ended June 30, 2007. The first was filed on May 8, 2007 and related to the issuance of an earnings release by the Company on May 8, 2007. The second was filed on May 18, 2007 and related to the declaration of a $.27 per share dividend by the Company's Board of Directors on May 16, 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

Kenneth H. Globus
President

By: /S/ ROBERT S. RUBINGER

Robert S. Rubinger
Chief Financial Officer

Date: August 8, 2007