

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2020

TRANSITION REPORT PURSUANT TO 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 1-10526

UNITED-GUARDIAN, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

11-1719724

(I.R.S. Employer Identification No.)

230 Marcus Boulevard, Hauppauge, New York 11788

(Address of principal executive offices)

(631) 273-0900

(Registrant's telephone number,
including area code)

N/A

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer”, “accelerated filer”, “smaller reporting company”, and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer
Non-accelerated filer
Accelerated filer
Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by checkmark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes No

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.10 par value per share	UG	NASDAQ Global Market

The registrant had 4,594,319 shares of common stock, \$.10 par value per share, outstanding at August 3, 2020.

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Part I. FINANCIAL INFORMATION

ITEM 1. Condensed Financial Statements

UNITED-GUARDIAN, INC.

STATEMENTS OF INCOME

(UNAUDITED)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Net sales	\$ <u>2,954,644</u>	\$ <u>3,279,399</u>	\$ <u>6,277,558</u>	\$ <u>6,459,716</u>
Costs and expenses:				
Cost of sales	1,270,434	1,467,323	2,659,765	2,755,668
Operating expenses	511,635	502,094	1,026,910	1,049,056
Research and development expense	<u>108,566</u>	<u>93,846</u>	<u>216,298</u>	<u>192,504</u>
Total costs and expenses	<u>1,890,635</u>	<u>2,063,263</u>	<u>3,902,973</u>	<u>3,997,228</u>
Income from operations	<u>1,064,009</u>	<u>1,216,136</u>	<u>2,374,585</u>	<u>2,462,488</u>
Other income:				
Investment income	48,319	49,941	92,386	94,108
Net gain on marketable securities	<u>387,179</u>	<u>86,849</u>	<u>30,584</u>	<u>344,043</u>
Total other income	<u>435,498</u>	<u>136,790</u>	<u>122,970</u>	<u>438,151</u>
Income before provision for income taxes	1,499,507	1,352,926	2,497,555	2,900,639
Provision for income taxes	<u>312,896</u>	<u>274,116</u>	<u>520,637</u>	<u>599,135</u>
NET INCOME	\$ <u>1,186,611</u>	\$ <u>1,078,810</u>	\$ <u>1,976,918</u>	\$ <u>2,301,504</u>
Earnings per common share (basic and diluted)	\$ <u>0.26</u>	\$ <u>0.23</u>	\$ <u>0.43</u>	\$ <u>0.50</u>
Weighted average shares (basic and diluted)	<u>4,594,319</u>	<u>4,594,319</u>	<u>4,594,319</u>	<u>4,594,319</u>

See Notes to Condensed Financial Statements

UNITED-GUARDIAN, INC.

BALANCE SHEETS

	JUNE 30, 2020	DECEMBER 31, 2019
	(UNAUDITED)	(AUDITED)
Current assets:		
Cash and cash equivalents	\$ 2,207,019	\$ 1,048,311
Marketable securities	6,990,906	6,867,516
Accounts receivable, net of allowance for doubtful accounts of \$20,186 at June 30, 2020 and \$21,178 December 31, 2019	1,171,815	2,098,411
Inventories, (net)	1,523,392	1,217,277
Prepaid expenses and other current assets	219,510	170,466
Prepaid income taxes	<u>---</u>	<u>165,300</u>
Total current assets	<u>12,112,642</u>	<u>11,567,281</u>
Net property, plant, and equipment:		
Land	69,000	69,000
Factory equipment and fixtures	4,482,236	4,482,236
Building and improvements	<u>2,842,285</u>	<u>2,839,289</u>
Total property, plant, and equipment	7,393,521	7,390,525
Less: Accumulated depreciation	<u>6,683,500</u>	<u>6,609,818</u>
Total property, plant, and equipment, (net)	<u>710,021</u>	<u>780,707</u>
Other assets, (net)	<u>7,412</u>	<u>14,824</u>
TOTAL ASSETS	\$ <u>12,830,075</u>	\$ <u>12,362,812</u>

See Notes to Condensed Financial Statements

UNITED-GUARDIAN, INC.

BALANCE SHEETS

(continued)

LIABILITIES AND STOCKHOLDERS' EQUITY

	JUNE 30, 2020 (UNAUDITED)	DECEMBER 31, 2019 (AUDITED)
Current liabilities:		
Accounts payable	\$ 95,493	\$ 71,385
Accrued expenses	1,469,612	1,129,126
Income taxes payable	317,346	---
Dividends payable	<u>142,576</u>	<u>142,548</u>
Total current liabilities	<u>2,025,027</u>	<u>1,343,059</u>
Deferred income taxes (net)	<u>124,846</u>	<u>386,855</u>
Commitments and contingencies		
Stockholders' equity:		
Common stock \$.10 par value, 10,000,000 shares authorized; 4,594,319 shares issued and outstanding at June 30, 2020 and December 31, 2019, respectively	459,432	459,432
Retained earnings	<u>10,220,770</u>	<u>10,173,466</u>
Total stockholders' equity	<u>10,680,202</u>	<u>10,632,898</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 12,830,075</u>	<u>\$ 12,362,812</u>

See Notes to Condensed Financial Statements

UNITED-GUARDIAN, INC.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(UNAUDITED)

THREE AND SIX MONTHS ENDED JUNE 30, 2020

	Common stock		Retained	Total
	<u>Shares</u>	<u>Amount</u>	<u>Earnings</u>	
Balance, January 1, 2020	4,594,319	\$ 459,432	\$ 10,173,466	\$ 10,632,898
Net income	---	---	<u>790,307</u>	<u>790,307</u>
Balance, March 31, 2020	4,594,319	\$ 459,432	\$ 10,963,773	\$ 11,423,205
Net income	---	---	1,186,611	1,186,611
Dividends declared and paid (\$0.42 per share)	---	---	(1,928,969)	(1,928,969)
Dividends declared but not paid (\$0.42 per share)	---	---	<u>(645)</u>	<u>(645)</u>
Balance, June 30, 2020	<u>4,594,319</u>	<u>\$ 459,432</u>	<u>\$ 10,220,770</u>	<u>\$ 10,680,202</u>

THREE AND SIX MONTHS ENDED JUNE 30, 2019

	Common stock		Retained	Total
	<u>Shares</u>	<u>Amount</u>	<u>Earnings</u>	
Balance, January 1, 2019	4,594,319	\$ 459,432	\$ 10,465,506	\$ 10,924,938
Net income	---	---	<u>1,222,694</u>	<u>1,222,694</u>
Balance, March 31, 2019	4,594,319	\$ 459,432	\$ 11,688,200	\$ 12,147,632
Net income	---	---	1,078,810	1,078,810
Dividends declared and paid (\$0.55 per share)	---	---	(2,524,946)	(2,524,946)
Dividends declared but not paid (\$0.55 per share)	---	---	<u>(1,930)</u>	<u>(1,930)</u>
Balance, June 30, 2019	<u>4,594,319</u>	<u>\$ 459,432</u>	<u>\$ 10,240,134</u>	<u>\$ 10,699,566</u>

See Notes to Condensed Financial Statements

UNITED-GUARDIAN, INC.

STATEMENTS OF CASH FLOWS
(UNAUDITED)

	SIX MONTHS ENDED	
	June 30,	
	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Net income	\$ 1,976,918	\$ 2,301,504
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	81,094	84,210
Net gain on marketable securities	(30,584)	(344,043)
Allowance for doubtful accounts	(992)	---
Deferred income taxes	(262,009)	(45,072)
Decrease (increase) in operating assets:		
Accounts receivable	927,588	139,312
Inventories	(306,115)	181,360
Prepaid expenses and other current assets	(49,044)	(70,452)
Prepaid income taxes	165,300	169,207
Increase (decrease) in operating liabilities:		
Accounts payable	24,108	(96,345)
Accrued expenses	340,486	323,131
Income taxes payable	317,346	---
Dividends payable	<u>(617)</u>	<u>---</u>
Net cash provided by operating activities	<u>3,183,479</u>	<u>2,642,812</u>
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(2,996)	(31,655)
Proceeds from sale of marketable securities	3,524,156	9,359,971
Purchase of marketable securities	<u>(3,616,962)</u>	<u>(9,085,612)</u>
Net cash (used in) provided by investing activities	<u>(95,802)</u>	<u>242,704</u>
Cash flows from financing activities:		
Dividends paid	(1,928,969)	(2,524,946)
Net cash used in financing activities	(1,928,969)	(2,524,946)
Net increase in cash and cash equivalents	1,158,708	360,570
Cash and cash equivalents at beginning of period	<u>1,048,311</u>	<u>550,135</u>
Cash and cash equivalents at end of period	\$ <u>2,207,019</u>	\$ <u>910,705</u>
Supplemental disclosure of cash flow information		
Taxes paid	\$ <u>300,000</u>	\$ <u>475,000</u>
Supplemental disclosure of non-cash dividends payable	\$ <u>645</u>	\$ <u>1,930</u>

See Notes to Condensed Financial Statements

NOTES TO CONDENSED FINANCIAL STATEMENTS

(UNAUDITED)

1. Nature of Business

United-Guardian, Inc. (the "Company") is a Delaware corporation that, through its Guardian Laboratories division, conducts research, product development, manufacturing and marketing of cosmetic ingredients, pharmaceuticals, medical products and proprietary specialty industrial products.

2. Basis of Presentation

Interim condensed financial statements of the Company are prepared in accordance with United States Generally Accepted Accounting Principles ("US GAAP") for interim financial information, pursuant to the requirements for reporting on Form 10-Q and Regulation S-X. In the opinion of management, all adjustments considered necessary for the fair presentation of financial statements for the interim periods have been included. The results of operations for the three and six months ended June 30, 2020 (also referred to as the "second quarter of 2020" and the "first half of 2020", respectively) are not necessarily indicative of results that ultimately may be achieved for any other interim period or for the year ending December 31, 2020. The interim unaudited condensed financial statements and notes thereto should be read in conjunction with the audited financial statements and notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2019.

3. Impact of coronavirus (COVID-19)

In March 2020, the spread of the coronavirus (COVID-19) began to cause disruptions among businesses and markets worldwide. On March 20, 2020, the Governor of New York issued an executive order which closed non-essential businesses. The Company, as a manufacturer of pharmaceutical and medical products, was considered an essential business, and continued to operate. While most of the Company's pharmaceutical and medical customers were not impacted by the coronavirus pandemic, there were three medical product customers that were, and orders from those three customers decreased in the second quarter. The Company believes that those decreases were directly related to the coronavirus pandemic. Since the Company's cosmetic ingredients are marketed globally by its marketing partners in different countries, it is difficult to project the future impact of the coronavirus pandemic on the Company's global cosmetic ingredient sales, since the virus continues to impact countries at different times and to very different extents. While these disruptions are expected to be temporary, until the crisis passes in the different countries it is likely that there will continue to be a negative impact on the Company's sales in those countries. Since there is uncertainty as to what the duration of the pandemic will be, the Company is unable to provide any accurate estimate or projection as to what the full impact of the coronavirus will be on the Company's operations or financial results.

As of the date of this report, the Company does not anticipate that the coronavirus pandemic will affect the ability of the Company to obtain raw materials and maintain production. The Company has price protection on its most important raw material and has multiple sources for many of its raw materials. The Company also purchased additional quantities of some raw materials at the beginning of the pandemic, and as a result it does not anticipate that it will have a problem maintaining production. Although the rate of production was slightly impacted due to staggered production hours during the second quarter of 2020, the Company was able to maintain sufficient inventory and production levels to enable it to fulfill sales orders on a timely basis. The Company does not expect the carrying value of its assets or its liquidity to be impaired by the coronavirus pandemic.

4. Use of Estimates

In preparing financial statements in conformity with US GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates. Such estimated items include the allowance for bad debts, reserve for inventory obsolescence, accrued distribution fees, outdated material returns, possible impairment of marketable securities, and the allocation of overhead.

5. Revenue Recognition

The Company records revenue in accordance with ASC Topic 606 “Revenue from Contracts with Customers.” Under this guidance, revenue is recognized when a customer obtains control of promised goods or services, in an amount that reflects the consideration expected to be received in exchange for those goods or services. The Company’s principal source of revenue is product sales.

The Company’s sales, as reported, are subject to a variety of deductions, which generally are estimated and recorded in the same period that the revenues are recognized. Such variable consideration, primarily related to the sale of the Company’s pharmaceutical products, includes chargebacks from the United States Department of Veterans Affairs (“VA”), rebates in connection with participation in Medicare and Medicaid programs, distribution fees, discounts, and outdated product returns. These deductions represent estimates of the related obligations and, as such, knowledge and judgment are required when estimating the impact of these revenue deductions on sales for a reporting period.

As long as a valid purchase order has been received and future collection of the sale amount is reasonably assured, the Company recognizes revenue from sales of its products when those products are shipped, which is when the Company’s performance obligation is satisfied. The Company’s products are shipped “Ex-Works” from the Company’s facility in Hauppauge, NY, and the risk of loss and responsibility for the shipment passes to the customer upon shipment. Sales of the Company’s non-pharmaceutical products are deemed final upon shipment, and there is no obligation on the part of the Company to repurchase or allow the return of these goods unless they are defective. Sales of the Company’s pharmaceutical products are final upon shipment unless (a) they are found to be defective; (b) the product is damaged in shipping; or (c) the product is outdated (but not more than one year after their expiration date, which is a return policy which conforms to standard pharmaceutical industry practice). The Company

estimates an allowance for outdated material returns based on previous years' historical returns of its pharmaceutical products.

The Company does not make sales on consignment, and the collection of the proceeds of the sale of any of the Company's products is not contingent upon the customer being able to sell the goods to a third party.

Any allowances for returns are taken as a reduction of sales within the same period the revenue is recognized. Such allowances are determined based on historical experience under ASC Topic 606-10-32-8. The Company has not experienced significant fluctuations between estimated allowances and actual activity.

The timing between recognition of revenue for product sales and the receipt of payment is not significant. Due to the Covid-19 pandemic, the Company experienced minor delays in receiving payments from certain customers that were impacted by the pandemic during the second quarter of 2020, but the negative impact of those delayed payments was not significant. The Company's standard credit terms, which vary depending on the customer, range between 30 and 60 days. The Company uses its judgment on a case-by-case basis to determine its ability to collect outstanding receivables and provides allowances for any receivables for which collection has become doubtful. As of June 30, 2020 and December 31, 2019, the allowance for doubtful accounts receivable was \$20,186 and \$21,178, respectively. Prompt-pay discounts are offered to some customers; however, due to the uncertainty of the customers taking the discounts, the discounts are recorded when they are taken.

The Company has distribution agreements with certain distributors of its pharmaceutical products that entitles those distributors to distribution and services-related fees. The Company records distribution fees, and estimates of distribution fees, as offsets to revenue.

Disaggregated sales by product class is as follows:

	Three months ended June 30,		Six months ended June 30,	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Cosmetic ingredients	\$ 1,105,919	\$ 1,435,951	\$ 2,808,779	\$ 3,087,673
Pharmaceuticals	1,192,441	994,731	2,231,152	1,882,333
Medical products	627,450	807,694	1,166,646	1,418,201
Industrial products	<u>28,834</u>	<u>41,023</u>	<u>70,981</u>	<u>71,509</u>
Total Sales	\$ <u>2,954,644</u>	\$ <u>3,279,399</u>	\$ <u>6,277,558</u>	\$ <u>6,459,716</u>

The Company's cosmetic ingredients are marketed worldwide by five marketing partners, of which U.S.-based Ashland Specialty Ingredients ("ASI") purchases the largest volume. Approximately 23% of the Company's total sales in the second quarter of 2020 were to customers located outside of the United States, compared with approximately 21% in the second quarter of 2019. For the six months ended June 30, 2020 approximately 19% of the Company's total sales were to customers located outside of the United States, compared with approximately 20% for the six months ended June 30, 2019.

Disaggregated sales by geographic region is as follows:

	Three months ended June 30,		Six months ended June 30,	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
United States*	\$ 2,276,962	\$ 2,590,643	\$ 5,068,642	\$ 5,149,548
Other countries	<u>677,682</u>	<u>688,756</u>	<u>1,208,916</u>	<u>1,310,168</u>
Total Sales	\$ <u>2,954,644</u>	\$ <u>3,279,399</u>	\$ <u>6,277,558</u>	\$ <u>6,459,716</u>

*Since all purchases by ASI are shipped to ASI's warehouses in the U.S. they are reported as U.S. sales for financial reporting purposes. However, ASI has reported to the Company that approximately 72% of ASI's sales of the Company's products in the second quarter of 2020 were to customers in other countries, with China representing approximately 42% of ASI's sales of the Company's products, compared with approximately 70% of ASI's sales of the Company's products in the second quarter of 2019 going to customers in other countries, with China representing approximately 54% of ASI's sales of the Company's products during that period. For the six months ended June 30, 2020 approximately 69% of ASI's sales of the Company's products were to customers in other countries, with China accounting for approximately 34% of ASI's sales of the Company's products, as compared with approximately 75% of ASI's sales going to customers in other countries for the six months ended June 30, 2019, with China accounting for approximately 52% of ASI's sales of the Company's products during that period.

6. Marketable Securities

Marketable securities include investments in fixed income and equity mutual funds, and U.S. Government securities with maturities greater than 3 months, all of which are reported at their fair values.

The Company's U.S. Treasury Bills are considered debt securities and any unrealized gains and losses, if any, would be reported in other comprehensive income. The U.S. Treasury Bills are considered held to maturity securities, as they are purchased direct from the U.S. Government and are unable to be sold before the maturity date.

The disaggregated net gains and losses on the marketable securities recognized in the income statements for the three- and six-month periods ended June 30, 2020 and June 30, 2019 were as follows:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Net gains recognized during the period on marketable securities	\$ 387,179	\$ 86,849	\$ 30,584	\$ 344,043
Less: Net gains recognized during the period on marketable securities sold during the period	<u>4,856</u>	<u>252,728</u>	<u>4,856</u>	<u>247,499</u>
Unrealized gains (losses) recognized during the reporting period on marketable securities still held at the reporting date	\$ <u>382,323</u>	\$ <u>(165,879)</u>	\$ <u>25,728</u>	\$ <u>96,544</u>

The fair values of the Company's marketable securities are determined in accordance with US GAAP, with fair value being defined as the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the Company utilizes the three-tier value hierarchy, as prescribed by US GAAP, which prioritizes the inputs used in measuring fair value as follows:

- Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Company's marketable equity securities, which are considered available for sale securities, are re-measured to fair value on a recurring basis and are valued using Level 1 inputs using quoted prices (unadjusted) for identical assets in active markets.

The following tables summarize the Company's investments:

<u>June 30, 2020</u> (Unaudited)	<u>Cost</u>	<u>Fair value</u>	<u>Unrealized gain</u>
<u>Equity Securities</u>			
Fixed income mutual funds	\$ 5,769,641	\$ 6,056,613	\$ 286,972
Equity and other mutual funds	<u>774,297</u>	<u>934,293</u>	<u>159,996</u>
Total equity securities	<u>6,543,938</u>	<u>6,990,906</u>	<u>446,968</u>
Total marketable securities	\$ <u>6,543,938</u>	\$ <u>6,990,906</u>	\$ <u>446,968</u>

December 31, 2019 (Audited)**Debt Securities**

U.S Treasury Bills (original maturities of greater than 3 months up to one year)	\$ <u>3,481,625</u>	\$ <u>3,481,625</u>	\$ <u>---</u>
Total debt securities	<u>3,481,625</u>	<u>3,481,625</u>	<u>---</u>

Equity Securities

Fixed income mutual funds	1,940,071	2,122,157	182,086
Equity and other mutual funds	<u>1,024,580</u>	<u>1,263,734</u>	<u>239,154</u>
Total equity securities	<u>2,964,651</u>	<u>3,385,891</u>	<u>421,240</u>
Total marketable securities	\$ <u>6,446,276</u>	\$ <u>6,867,516</u>	\$ <u>421,240</u>

Investment income is recognized when earned and consists principally of interest income from fixed income mutual funds and U.S Treasury Bills, and dividend income from equity and other mutual funds. Realized gains and losses on sales of investments are determined on a specific identification basis.

Proceeds from the sale and redemption of marketable securities amounted to \$3,524,156 for the first half of 2020, which includes a net gain on sales of \$4,856. Proceeds from the sale and redemption of marketable securities amounted to \$9,359,971 for the first half of 2019, which included realized gains on sales of \$247,499.

7. Inventories

	June 30, <u>2020</u> (Unaudited)	December 31, <u>2019</u> (Audited)
Inventories consist of the following:		
Raw materials	\$ 468,649	\$ 320,507
Work in process	67,529	81,002
Finished products	<u>987,214</u>	<u>815,768</u>
Total Inventories	\$ <u>1,523,392</u>	\$ <u>1,217,277</u>

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the average cost method, which approximates cost determined by the first-in, first-out ("FIFO") method. Finished product inventories at June 30, 2020 and December 31, 2019 are stated net of a reserve of \$35,000 for slow moving and obsolete inventory. At June 30, 2020 and December 31, 2019, the Company had allowances of \$271,208 and \$231,392 respectively, for possible outdated material returns, which is included in accrued expenses.

As of the date of this report, the Covid-19 pandemic has not adversely affected the valuation of the Company's finished products, work in process, or raw material inventories.

8. Income Taxes

The Company's tax provision is based on its estimated annual effective tax rate. The Company continues to fully recognize its tax benefits, and as of June 30, 2020 and December 31, 2019, the Company did not have any unrecognized tax benefits. The Company's provision for income taxes for the three and six months ended June 30 included the following:

	Three months ended June 30,		Six months ended June 30,	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Provision for federal income taxes - current	\$ 490,893	\$ 330,044	\$ 782,646	\$ 644,207
Benefit for federal income taxes - deferred	(177,997)	(55,928)	(262,009)	(45,072)
Total Provision for Income taxes	\$ <u>312,896</u>	\$ <u>274,116</u>	\$ <u>520,637</u>	\$ <u>599,135</u>

9. Defined Contribution Plan

The Company sponsors a 401(k) defined contribution plan ("DC Plan") that provides for a dollar-for-dollar employer matching contribution of the first 4% of each employee's pay that is deferred by the employee. Employees become fully vested in employer matching contributions after one year of employment.

The Company also makes discretionary contributions to each employee's account based on a "pay-to-pay" safe-harbor formula that qualifies the 401(k) Plan under current IRS regulations. Employees become vested in the discretionary contributions as follows: 20% after two years of employment, and 20% for each year of employment thereafter until the employee becomes fully vested after six years of employment. In the fourth quarter of 2018 the Company's Board of Directors authorized a discretionary contribution in the amount of \$150,000, which was allocated among the accounts of all eligible employees and paid into their accounts in the DC Plan in December 2018. Based on that 2018 contribution, in the first half of 2019 the Company accrued \$75,000 for a possible discretionary contribution at the end of 2019. However, in May 2019 the Company's Board of Directors reduced the projected discretionary contribution for 2019 to \$145,000, and that is the amount that was allocated among and paid into employees' accounts in December 2019. Based on that 2019 contribution, in the first half of 2020 the Company accrued \$72,500 towards the projected December 2020 discretionary contribution. For the first quarters of 2020 and 2019 the Company did not make any discretionary payments into the DC Plan.

10. Other Information

<u>Accrued Expenses</u>	June 30, <u>2020</u> (unaudited)	December 31, <u>2019</u> (audited)
Bonuses	\$ 418,512	\$ 216,000
Distribution fees	330,503	309,190
Payroll and related expenses	202,337	175,433
Reserve for outdated material	271,208	231,392
Company 401(k) contribution	72,500	----
Audit fee	35,000	48,500
Insurance	60,796	---
Annual report expenses	32,494	64,324
Sales rebates	25,000	46,100
Other	<u>21,262</u>	<u>38,187</u>
Total Accrued Expenses	\$ <u>1,469,612</u>	\$ <u>1,129,126</u>

11. Recent Accounting Pronouncements

In January 2019, the Company adopted ASU 2016-02, "Leases", which is intended to improve financial reporting for lease transactions. This ASU requires organizations that lease assets, such as real estate and manufacturing equipment, to recognize both assets and liabilities on their balance sheet for the rights to use those assets for the lease term and obligations to make the lease payments created by those leases that have terms of greater than 12 months. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as finance or operating lease. This ASU requires disclosures to help investors and other financial statement users better understand the amount and timing of cash flows arising from leases. The disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The adoption of this standard did not have a material impact on the Company's financial statements.

On December 18, 2019, the FASB issued ASU 2019-12, "Simplifying the Accounting for Income Taxes", which modifies ASU 740, to simplify the accounting for income taxes. The amendments in ASU 2019-12 are effective for fiscal years beginning after December 15, 2020. Early adoption is permitted. The Company is currently evaluating if any of the modifications in this pronouncement will have an impact on its financial statements.

In June 2016, the FASB issued ASU-2016-13 "Financial Instruments – Credit Losses". This guidance affects organizations that hold financial assets and net investments in leases that are not accounted for at fair value with changes in fair value reported in net income. The guidance requires organizations to measure all expected credit losses for financial instruments at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. In November 2019, the FASB amended the effective date of implementation of this standard for smaller reporting companies. The new effective date is for fiscal years beginning after December 15, 2022. The Company is evaluating the potential impact on its financial statements.

12. Concentrations of Credit Risk

Cash and cash equivalents: For financial statement purposes, the Company considers as cash equivalents all highly liquid investments with an original maturity of three months or less at inception. The Company deposits cash and cash equivalents with high credit quality financial institutions and believes that any amounts in excess of insurance limitations to be at minimal risk. Cash and cash equivalents held in these accounts are currently insured by the Federal Deposit Insurance Corporation ("FDIC") up to a maximum of \$250,000. At June 30, 2020 and December 31, 2019, \$2,263,000 and \$1,174,000, respectively, exceeded the FDIC limit.

Customer concentration: Accounts receivable potentially exposes the Company to concentrations of credit risk. The Company monitors the amount of credit it allows each of its customers, using the customer's prior payment history to determine how much credit to allow or whether any credit should be given at all. It is the Company's policy to discontinue shipments to any customer that is substantially past due on its payments. The Company sometimes requires payment in advance from customers whose payment record is questionable. As a result of its monitoring of the outstanding credit allowed for each customer, as well as the fact that the majority of the Company's sales are to customers whose satisfactory credit and

payment record has been established over a long period of time, the Company believes that its credit risk from accounts receivable is low.

For the three months ended June 30, 2020, one of the Company's marketing partners, and three of its distributors, together accounted for 76% of the Company's sales and 64% of its outstanding accounts receivable at June 30, 2020. During the three-month period ended June 30, 2019, the same marketing partner and three distributors together were responsible for 73% of the Company's sales and 53% of its outstanding accounts receivable at June 30, 2019.

For the six months ended June 30, 2020, one of the Company's marketing partners, and three of its distributors, together accounted for 79% of the Company's sales and 64% of its outstanding accounts receivable at June 30, 2020. During the six-month period ended June 30, 2019, the same marketing partner and three distributors together were responsible for 77% of the Company's sales and 53% of its outstanding accounts receivable at June 30, 2019.

13. Earnings Per Share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the period increased to include the number of additional shares of common stock that would have been outstanding if the potentially dilutive securities had been issued.

Per share basic and diluted earnings amounted to \$0.26 and \$0.23 for the three months ended June 30, 2020 and 2019, respectively, and \$0.43 and \$0.50 for the six months ended June 30, 2020 and 2019, respectively.

14. Subsequent Events

The Company has evaluated all subsequent events from the date of the financial statements through the date of this report. As detailed in Note 3 above, the Covid-19 pandemic is an ongoing event, and as such, the Company is not able to project or quantify the impact of this event on the Company's future operations and financial results.

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

FORWARD-LOOKING STATEMENTS

Statements made in this Form 10-Q 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", "anticipates", or other similar expressions.

Forward-looking statements involve inherent risks and uncertainties, and important factors (many of which are beyond the Company's 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; changes in 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 principles, 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 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. (See the Company's discussion of the potential impact of the coronavirus on the Company's future operations and financial results in "PART II, ITEM 1A. RISK FACTORS" below).

OVERVIEW

The Company is a Delaware corporation that, through its Guardian Laboratories division, conducts research, product development, manufacturing and marketing of cosmetic ingredients, pharmaceuticals, medical products, and proprietary specialty industrial products. All the products that the Company manufactures, with the exception of Renacidin[®], are produced at its facility in Hauppauge, New York, and are marketed through marketing partners, distributors, wholesalers, direct advertising, mailings, and trade exhibitions. Its most important product line is its Lubrajel[®] line of water-based moisturizing and lubricating gels, which are used primarily as ingredients in cosmetic products, as well as medical lubricants. The Company's research and development department is actively working on the development of new products to expand the Company's line of cosmetic ingredients. Many of the Company's products use proprietary manufacturing processes and the Company relies primarily on trade secret protection to protect its intellectual property.

The Company's cosmetic ingredients are marketed worldwide by five marketing partners, the largest of which is U.S.-based ASI. The Company also sells two pharmaceutical products for urological uses. Those products are sold primarily in the United States through the major drug wholesalers, which in turn sell the products to pharmacies, hospitals, nursing homes and other long-term care facilities, and to government agencies, primarily the VA.

The Company's non-pharmaceutical medical products (referred to hereinafter as "medical products"), such as its catheter lubricants, as well as its specialty industrial products, are sold directly by the Company to the end users or to contract manufacturers utilized by the end users, although they are available for sale on a non-exclusive basis by its marketing partners as well.

While the Company does have competition in the marketplace for some of its products, particularly its cosmetic ingredients, some of its pharmaceutical and medical products have some unique characteristics, and do not have direct competitors. However, these products may have indirect competition from other products that are not marketed as direct competitors to the Company's products but may have functionality or properties that are similar to the Company's products.

The Company recognizes revenue when all of the following requirements are satisfied: (a) persuasive evidence of a sales arrangement exists; (b) products are shipped, which is when the performance obligation is satisfied and title and risk of loss pass to the customers; and (c) collections are reasonably assured. An allowance for returns, based on historical experience, is taken as a reduction of sales within the same period the revenue is recognized.

Over the years the Company has been issued many patents and trademarks, and it still maintains a number of registered trademarks, the two most important of which are “Lubrajel” and “Renacidin”. However, in regard to protection of the Company’s proprietary formulations and manufacturing technology the Company currently relies primarily on trade secret protection rather than patent protection due to the current disclosure requirements needed to obtain patents, the limited practical protection they afford, and the difficulty and expense of enforcing them. However, the Company may, from time to time, seek patent protection when it believes it would be in the Company’s best interest to do so. All of the Company’s previously-issued patents have expired; however, the Company does not believe that the expiration of those patents has had, or will have, any material impact on its sales, since in recent years protection for the Company’s most important products has been based on trade secrets and proprietary manufacturing methods rather than patent protection.

As discussed in Note 3 above, while the Company remained open during the entire second quarter due to its status as an “essential business,” its sales were still negatively impacted by the pandemic. This impact was primarily the result of a decrease in orders for both its cosmetic ingredients and its medical products. The Company’s pharmaceutical products were not impacted, and actually increased compared with last year’s second quarter. The decrease in sales of the Company’s medical products was primarily attributable to a decrease in orders from three of the Company’s larger medical product customers. The Company believes that these decreases were related to the impact of the coronavirus pandemic. It is likely that the coronavirus pandemic will continue to have a negative impact on the Company’s sales during the remainder of 2020 and possibly beyond. Although the Company does not expect its pharmaceutical sales to be impacted, it does anticipate that sales of its medical products could continue to be impacted while the pandemic continues.

Sales of the Company’s cosmetic ingredients will continue to be negatively impacted commensurate with reduced customer demand for, and the consequent reduced production of, consumer cosmetic products. The Company distributes products to marketing partners globally, and it is difficult to anticipate what market conditions will be like in other countries where the Company’s products are sold, and how those conditions might impact future sales of the Company’s products. It is likely that there will be a negative impact on the Company’s sales of its cosmetic ingredients until the pandemic is contained and normal demand for, and production of, cosmetic products return to previous levels. Since there is uncertainty as to what the duration of the pandemic will be, the Company is unable to provide any accurate estimate or projection as to what the full impact of the coronavirus will be on the Company’s operations and financial results for the upcoming quarters.

As of the date of this report the Company does not anticipate that the coronavirus pandemic will affect the ability of the Company to obtain raw materials and maintain production. The Company has price protection on its most important raw material and has multiple sources for many of its other raw materials. The Company also purchased additional quantities of some raw materials at the beginning of the pandemic, and as a result does not anticipate that it will have a problem maintaining production. Although the rate of production was slightly impacted

due to staggered production hours during the second quarter of 2020, the Company did not have an issue with being able to maintain sufficient inventory and production levels and was able to fulfill sales orders on a timely basis.

CRITICAL ACCOUNTING POLICIES

As disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019, the discussion and analysis of the Company's financial condition and results of operations are based on its financial statements, which have been prepared in conformity with US GAAP. The preparation of those financial statements required the Company to make estimates and assumptions that affect the carrying value 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. The Company's most critical accounting policies relate to revenue recognition, concentration of credit risk, investments, inventory, and income taxes. Since December 31, 2019, 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, 2019, and a comparison of the results of operations for the second quarter of 2020 and 2019 and the first half of 2020 and 2019. 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-K for the year ended December 31, 2019. All references in this quarterly report to "sales" or "Sales" shall mean "net sales" unless specifically identified as "gross sales".

The Company recognizes revenue from sales of its cosmetic ingredients, medical products, and industrial products when all of the following requirements are satisfied: (a) a valid purchase order has been received; (b) products are shipped, which is when the performance obligation is satisfied and title and risk of loss pass to the customers; and (c) future collection of the sale amount is reasonably assured. These products are shipped "Ex-Works" from the Company's facility in Hauppauge, NY, and it is at this time that risk of loss and responsibility for the shipment passes to the customer. Sales of these products are deemed final, and there is no obligation on the part of the Company to repurchase or allow the return of these goods unless they are defective.

The Company's pharmaceutical products are shipped via common carrier upon receipt of a valid purchase order, with, in most cases, the Company paying the shipping costs. The Company assumes responsibility for the shipment arriving at its intended destination. Sales of pharmaceutical products are final and revenue is recognized at the time of shipment, which is when the performance obligation is satisfied. Pharmaceutical products are returnable only at the discretion of the Company unless (a) they are found to be defective; (b) the product is damaged in shipping; or (c) the product is outdated (but not more than one year after their expiration date, which is a return policy which conforms to standard pharmaceutical industry practice). The Company estimates an allowance for outdated material returns based on gross sales of its pharmaceutical products.

RESULTS OF OPERATIONS

Net Sales

Net sales for the second quarter of 2020 decreased by \$324,755 (10%) when compared with the same period in 2019. Net sales for the first half of 2020 decreased by \$182,158 (3%) as compared with the corresponding period in 2019. The decrease in sales for both the second quarter of 2020 and the first half of 2020 were attributable to changes in sales of the following product lines:

1. **Cosmetic Ingredients:**

- a) **Second quarter sales:** For the second quarter of 2020, the Company's sales of cosmetic ingredients decreased by \$330,032 (23%) when compared with the second quarter of 2019. The decrease in second quarter sales was due primarily to a decrease of \$316,700 (28%) in sales of the Company's cosmetic ingredients to ASI. This was primarily the result of a decrease in demand for some of the Company's products in China. Based on information provided to the Company by ASI, it was a result of both the softening of the market in China for cosmetic products in which the Company's products were being used, as well as continuing competition from lower-priced Asian competitors. The Company is continuing to work closely with ASI to develop pricing that could enable the Company to better compete with the lower-cost Asian competitors.

Second quarter sales to the Company's four other marketing partners, as well as to two small direct cosmetic ingredient customers, decreased by a net of \$13,332 (5%) compared with the second quarter of 2019. The net decrease of \$13,332 was attributable to a sales increase of \$50,637 (50%) to the Company's marketing partners in the UK and Switzerland, and an increase of \$2,731 (150%) in sales to two direct cosmetic ingredient customers. Those increases were offset by a decrease in sales of \$66,700 (37%) to the Company's marketing partners in France and Italy and its former marketing partner in Korea. In late 2019, the Company began transitioning its Korean business to ASI and is no longer working with its former Korean marketing partner. The Company believes that the decline in sales in Europe was due primarily to increased competition from Asian competitors selling similar, although not necessarily identical, products at lower prices.

The Company believes that the sales fluctuations to the Company's European marketing partners were the result of both the timing of customer orders as well as continuing competition from companies selling competitive products at lower prices, particularly a number of Asian manufacturers. This has resulted in a loss of some business in Europe to these less expensive products. As a result, from time to time the Company has adjusted its prices in order to retain or attract customers and be more competitive with some of the lower-priced products. Although there has been some impact on the Company's profit margins on those sales, to date this impact has not been significant. The Company intends to continue to aggressively compete with these products whenever possible.

b) Six-month sales: For the first half of 2020 the Company's sales of cosmetic ingredients decreased by \$278,894 (9%) when compared with the equivalent period in 2019. This decrease was due primarily to a decrease of \$290,139 (11%) in shipments of the Company's extensive line of cosmetic ingredients to ASI. The primary reason for the decrease in sales for the six-month period was the same as for the sales decrease in the second quarter: lower sales to ASI as the result of a reduction in demand in China.

Sales for the first six months of 2020 of the Company's cosmetic ingredients to the Company's four other marketing partners, as well as to the two direct cosmetic ingredient customers, increased by \$11,245 (2%) compared with the equivalent period in 2019. Six-month sales to the Company's marketing partners in the UK and France increased by a total of \$91,850 (21%); sales to the two direct cosmetic ingredient customers increased by \$4,002 (115%); and sales to the Company's marketing partners in Switzerland, Italy and Korea, decreased by a total of \$84,607 (73%). See explanation above regarding the Company's Korean marketing partner.

The Company believes that the sales fluctuations to the Company's European marketing partners are the result of both the timing of customer orders as well as continuing competition from companies selling competitive products at lower prices, particularly a number of Asian manufacturers. This has resulted in a loss of some business in Europe to these less expensive products. As a result, from time to time the Company has adjusted its prices in order to retain or attract customers and be more competitive with some of the lower-priced products. Although there has been some impact on the Company's profit margins on those sales, to date this impact has not been significant. The Company intends to continue to aggressively compete with these products whenever possible.

2. Pharmaceuticals:

Because there are fees, rebates and allowances associated with sales of the Company's two pharmaceutical products, Renacidin and Clorpactin, discussion of the Company's pharmaceutical sales includes references to both *gross sales* (before fees, rebates and allowances) and *net sales* (after fees, rebates and allowances). Net sales of the Company's pharmaceutical products for the three- and six-month periods ended June 30, 2020 increased by \$197,710 (20%) and \$348,819 (19%), respectively, compared with the corresponding periods in 2019. These increases were due primarily to increases of \$213,784 (19%) and \$408,079 (19%) in gross sales of Renacidin for the three- and six-month periods, respectively, ended June 30, 2020, and were partially offset by decreases of \$16,097 (11%) and \$19,842 (7%) in gross sales of the Company's other pharmaceutical product, Clorpactin, for the same three-and six-month periods, respectively. The increase in gross sales for the first six months of 2020 was also partially offset by an increase of \$39,418 in fees, rebates, and allowances, while the changes in fees, rebates, and allowances for the three-month period ended June 30, 2020 compared with the same period in 2019 were insignificant.

The Company believes that the increase in Renacidin sales was the result of its increased marketing efforts for Renacidin, primarily its launch of a new Renacidin website and the initiation of internet advertising, and that the decrease in Clorpactin sales was due to both normal fluctuations in sales as well as a possible decrease in the use of Clorpactin in

hospital settings as a result of the focus on the treatment of Covid-19 patients in many hospitals.

3. Medical (non-pharmaceutical) products:

Sales of the Company's medical products for the three- and six-month periods ended June 30, 2020, decreased by \$180,244 (22%) and \$251,555 (18%), respectively. The decrease in sales for both periods was primarily attributable to a decrease in orders from three of the Company's larger direct medical product customers. The Company believes that these decreases were related to the impact of the coronavirus pandemic, and that with some countries beginning to emerge from the pandemic it is anticipated that these orders will gradually increase, and that orders that were expected in the first half of the year and were delayed by the coronavirus may be received in the second half of the year if normal operations resume.

4. Industrial and other products:

Sales of the Company's industrial products, as well as other miscellaneous products, for the three- and six-month periods ended June 30, 2020, decreased by \$12,189 (30%) and \$528 (less than 1%), respectively, when compared with the corresponding periods in 2019. The decrease in sales for the three-month period was primarily due to a decrease in orders from one of the Company's industrial product customers located in California. The Company believes that the coronavirus pandemic may have been the cause of that decrease in orders.

As a result of the increase in the sales of the Company's pharmaceutical products, there was an increase in allowances for distribution fees, VA chargebacks, Medicaid and Medicare rebates, sales rebates and discounts, and outdated material returns, all of which increase proportionally as sales of those products increase. During the first half of 2020, the allowances for all the Company's products increased by a net of \$44,869 (approximately 8%) compared with the same period in 2019, primarily due to the increase in Renacidin sales.

Cost of Sales

Cost of sales as a percentage of net sales decreased from 45% in the second quarter of 2019 to 43% in the second quarter of 2020. For the first six months of 2020, cost of sales as a percentage of sales decreased from 43% to 42% compared with the first six months of 2019. The decreases in both periods were the result of lower production and overhead costs during the second quarter of 2020 due to decreased production during that period as a result of the Coronavirus pandemic.

Operating Expenses

Operating expenses, consisting of selling and general and administrative expenses, increased by \$9,541 (2%) for the second quarter of 2020, and decreased by \$22,146 (2%) for the first six months of 2020, compared with comparable periods in 2019. The increase in operating expenses for the second quarter of 2020 were primarily attributable to certain payroll related expenses and licensing fees. The decrease in operating expenses for the first six months of 2020 were primarily due to decreases in certain employee fringe benefit costs and professional fees. Operating expenses are expected to remain relatively consistent for the remainder of the year.

Research and Development Expenses

Research and development expenses increased by \$14,720 (16%) for the second quarter of 2020 compared with the second quarter of 2019, and increased by \$23,794 (12%) for the first six months of 2020 compared with the first six months of 2019. The increases in both periods was primarily due to an increase in payroll and payroll related expenses.

Investment Income

Investment income decreased by \$1,622 (3%) for the second quarter of 2020 compared with the second quarter of 2019, and decreased by \$1,722 (2%) for the first half of 2020 compared with the same period in 2019. These decreases were due to a decrease in dividend income from stock and bond mutual funds compared to the same periods in 2019.

Net gain on marketable securities

Net gain on marketable securities increased by \$300,330 (346%) for the second quarter of 2020 compared with the second quarter of 2019. In the first quarter of 2020, there was an unrealized loss of \$356,595 that resulted from the decrease in value of the Company's marketable securities due to the negative impact of the coronavirus epidemic on the stock and bond markets. Those markets took a steep drop in the first few weeks of 2020 after COVID-19 reached the United States. Since that time, the market has been slowly recovering, and during the second quarter of 2020 the Company recovered all of the \$356,595 in unrealized losses it had recognized in the first quarter, and ended the second quarter with an unrealized gain of approximately \$25,728 as a result of the market rebounding from the impact of the Coronavirus during the second quarter of 2020.

For the first half of 2020, the net gain on marketable securities decreased by \$313,459 (91%), compared with the same period in 2019. The primary reason for the decrease was that during the first six months of 2019, the Company recognized a realized gain on the sale of marketable securities in the amount of \$247,499, compared with the comparable six-month period in 2020, where the realized gain on securities sold was \$4,856.

Provision for Income Taxes

The Company's effective income tax rate was 21% for the first half of 2020 and 2019. The Company's tax rate is expected to remain at 21% for the current fiscal year.

LIQUIDITY AND CAPITAL RESOURCES

Working capital decreased from \$10,224,222 at December 31, 2019 to \$10,087,615 at June 30, 2020, a decrease of \$136,607. The current ratio decreased from 8.6 to 1 at December 31, 2019 to 6.0 to 1 at June 30, 2020. The decrease in working capital and the current ratio was primarily due to a decrease in accounts receivable and an increase in accrued expenses and income taxes payable. The increase in accrued expenses was primarily due to an increase in accruals for bonuses, the Company's 401(k) contribution, and insurance.

The Company 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 does not expect to incur any significant capital expenditures for the remainder of 2020. The Company intends to utilize its available cash and assets primarily for its continued organic growth and potential future strategic transactions, as well as to mitigate the potential impact of COVID-19 on the Company's business.

The Company generated cash from operations of \$3,183,479 and \$2,642,812 for the first half of 2020 and 2019, respectively. The increase from 2019 to 2020 was primarily due to the decrease in accounts receivable and the increase in income taxes payable.

Cash used in investing activities for the first half of 2020 was \$95,802, and cash provided by investing activities in the first half of 2019 was \$242,704. The decrease was primarily due to the timing of marketable security sales and reinvestments in 2020 compared with 2019.

Cash used in financing activities was \$1,928,969 and \$2,524,946 for the first half of 2020 and 2019, respectively. The decrease was due to a decrease in dividends paid from \$0.55 per share in 2019 to \$0.42 per share in 2020.

The Company expects to continue to use its cash to make dividend payments, to purchase marketable securities, and to take advantage of other opportunities that may arise that are in the best interest of the Company and its shareholders.

In connection with the coronavirus pandemic it is possible that certain customer invoices may remain outstanding longer than they have in the past, either due to slower payments from their customers, or as a result of having to shut down their business from time to time. However, the vast majority of the Company's customers are large companies, and the Company does not expect to have to increase its bad debt reserve, and anticipates that its invoices will be paid with minimal delays.

OFF BALANCE-SHEET ARRANGEMENTS

The Company has no off balance-sheet transactions that have, or are reasonably likely to have, a current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The information to be reported under this item is not required of smaller reporting companies.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The information to be reported under this item is not required of smaller reporting companies.

Item 4. CONTROLS AND PROCEDURES.

(a) DISCLOSURE CONTROLS AND PROCEDURES

The Company's management, including its Principal Executive Officer and Chief Financial Officer, has evaluated the design, operation, and effectiveness of the

Company's disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 (the "Exchange Act"). There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon the evaluation performed by the Company's management, including its Principal Executive Officer and Chief Financial Officer, it was determined that, as of the end of the period covered by this quarterly report, the Company's disclosure controls and procedures were effective in providing reasonable assurance that information required to be disclosed in the reports filed or submitted pursuant to the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to the Company's management, including its Principal Executive Officer and Chief Financial Officer, or persons performing similar functions, as appropriate, to allow timely decisions regarding disclosures.

(b) CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's Principal Executive Officer and Chief Financial Officer have determined that, during the period covered by this quarterly report, there were no changes in the Company's internal control over financial reporting that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. They have also concluded that there were no significant changes in the Company's internal controls after the date of the evaluation.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

NONE

ITEM 1A. RISK FACTORS.

POTENTIAL IMPACT OF COVID-19

As a result of the coronavirus pandemic, global consumer purchases declined during the first half of 2020, including purchases of cosmetic products. Until consumer purchases of those products resume their previous levels and cosmetic manufacturers increase their production, it is likely that some of the cosmetic manufacturers that use the Company's products will continue to decrease their purchases of the Company's cosmetic ingredients, both in the U.S. and overseas. As a result, for at least the rest of the year it is likely that sales of the Company's cosmetic ingredients will continue to be negatively impacted.

Over the past few years China has become a significant market for the Company's products, and it is anticipated that the impact of the coronavirus in China will continue to negatively impact those sales until the pandemic has passed and previous consumer

purchasing levels increase. It is also possible that the payment of some of the Company's outstanding invoices, not only for cosmetic ingredients but for the Company's other products as well, may be delayed as a result of temporary closures or cash flow problems on the part of some of the Company's customers. However, because most of the Company's customers are large distributors and wholesalers, it is anticipated that the Company will not experience any significant increase in bad debt.

Due to the uncertainty surrounding the duration of the pandemic and its impact on the various countries in which the Company does business, the Company is unable to provide any accurate estimate or projection as to what the full impact of the coronavirus will be on the Company's operations and financial results over the next few quarters. Although three of the Company's medical product customers did decrease their purchases during the second quarter, the Company believes that those decreases may also be related to the impact of the coronavirus, and it has not received any information from those customers that would give the Company reason to believe that future purchases will not resume their previous levels when the pandemic subsides. In regard to the Company's sales of its pharmaceutical products, year-to-date sales of these products have not been impacted by the pandemic, and the Company has no reason to believe that they will be.

The Company also does not anticipate that the coronavirus pandemic will affect its ability to obtain raw materials and maintain production. The Company has price protection on its most important raw material, and multiple sources for many of its other raw materials. The Company also brought in additional quantities of some raw materials at the beginning of the pandemic, and as a result does not anticipate that it will have a problem maintaining production. Although the Company had implemented a staggered work schedule and reduced work hours during the second quarter as a result of the pandemic, it is currently back on its regular work schedule and in full production, and has been able to re-stock its inventory back to normal levels.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

NONE

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

NONE

ITEM 4. MINE SAFETY DISCLOSURES.

NONE

ITEM 5. OTHER INFORMATION.

NONE

ITEM 6. 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 Andrea J. Young, Chief Financial Officer of the Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certifications of the Principal Executive Officer and Chief Financial Officer of the Company, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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/ ANDREA J. YOUNG
Andrea J. Young
Chief Financial Officer

Date: August 7, 2020