

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 September 30, 2022

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)

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

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

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

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 preceding 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  Accelerated filer   
Non-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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date:

As of November 1, 2022, the Registrant had issued and outstanding 4,594,319 shares of Common Stock, \$.10 par value per share ("Common Stock").

UNITED-GUARDIAN, INC.

**INDEX TO FINANCIAL STATEMENTS**

Page No.

**Part I. FINANCIAL INFORMATION**

Item 1 - Condensed Financial Statements (unaudited unless indicated otherwise)

Statements of Income - Three and Nine Months ended September 30, 2022 and 2021 2

Balance Sheets – September 30, 2022 (unaudited) and December 31, 2021 (audited) 3-4

Statements of Changes in Stockholders' Equity – Three and Nine Months ended  
September 30, 2022 and 2021 5

Statements of Cash Flows - Nine Months ended September 30, 2022 and 2021 6

Notes to Condensed Financial Statements 7-14

Item 2 - Management's Discussion and Analysis of Financial Condition  
and Results of Operations 15-22

Item 3 - Quantitative and Qualitative Disclosures About Market Risk 22

Item 4 - Controls and Procedures 22

**Part II. OTHER INFORMATION**

Item 1 - Legal Proceedings 22

Item 1A - Risk Factors 23

Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds 23

Item 3 - Defaults Upon Senior Securities 23

Item 4 - Mine Safety Disclosures 23

Item 5 - Other Information 23

Item 6 - Exhibits 23-24

**Signatures** 24

## Part I. FINANCIAL INFORMATION

### ITEM 1. Condensed Financial Statements

#### STATEMENTS OF INCOME

(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
<b>Net sales</b>	\$ <u>2,417,022</u>	\$ <u>3,179,746</u>	\$ <u>9,935,557</u>	\$ <u>10,268,592</u>
<b>Costs and expenses:</b>				
Cost of sales	1,076,035	1,320,509	4,479,905	4,180,912
Operating expenses	532,333	458,582	1,699,311	1,428,721
Research and development	<u>120,924</u>	<u>130,742</u>	<u>364,856</u>	<u>349,053</u>
<b>Total costs and expenses</b>	<u>1,729,292</u>	<u>1,909,833</u>	<u>6,544,072</u>	<u>5,958,686</u>
<b>Income from operations</b>	<u>687,730</u>	<u>1,269,913</u>	<u>3,391,485</u>	<u>4,309,906</u>
<b>Other Income:</b>				
Investment income	46,995	38,747	146,405	124,147
Net (loss) gain on marketable securities	<u>(300,526)</u>	<u>(25,108)</u>	<u>(1,154,464)</u>	<u>40,419</u>
<b>Total other (loss) income</b>	<u>(253,531)</u>	<u>13,639</u>	<u>(1,008,059)</u>	<u>164,566</u>
<b>Income before provision for income taxes</b>	434,199	1,283,552	2,383,426	4,474,472
<b>Provision for income taxes</b>	<u>88,681</u>	<u>267,046</u>	<u>493,119</u>	<u>932,240</u>
<b>Net income</b>	\$ <u>345,518</u>	\$ <u>1,016,506</u>	\$ <u>1,890,307</u>	\$ <u>3,542,232</u>
<b>Earnings per common share (Basic and Diluted)</b>	\$ <u>0.07</u>	\$ <u>0.22</u>	\$ <u>0.41</u>	\$ <u>0.77</u>
<b>Weighted average shares – basic and diluted</b>	4,594,319	4,594,319	4,594,319	4,594,319

See Notes to Condensed Financial Statements

UNITED-GUARDIAN, INC.

**BALANCE SHEETS**

**ASSETS**

	<b>SEPTEMBER 30, <u>2022</u></b>	<b>DECEMBER 31, <u>2021</u></b>
	(UNAUDITED)	(AUDITED)
<b>Current assets:</b>		
Cash and cash equivalents	\$ 496,526	\$ 531,213
Marketable securities	6,656,585	7,635,463
Accounts receivable, net of allowance for doubtful accounts of \$18,401 at September 30, 2022 and \$20,252 at December 31, 2021	1,127,010	1,813,346
Inventories, net	2,294,614	1,410,789
Prepaid expenses and other current assets	149,254	192,579
Prepaid income taxes	<u>150,633</u>	<u>---</u>
<b>Total current assets</b>	<b><u>10,874,622</u></b>	<b><u>11,583,390</u></b>
<b>Deferred income taxes</b>	<u>185,188</u>	<u>---</u>
<b>Net property, plant, and equipment:</b>		
Land	69,000	69,000
Factory equipment and fixtures	4,633,384	4,605,742
Building and improvements	<u>2,886,241</u>	<u>2,853,718</u>
<b>Total property, plant, and equipment</b>	<b>7,588,625</b>	<b>7,528,460</b>
Less: Accumulated depreciation	<u>6,972,449</u>	<u>6,869,598</u>
<b>Total property, plant, and equipment, net</b>	<b><u>616,176</u></b>	<b><u>658,862</u></b>
<b>TOTAL ASSETS</b>	<b>\$ <u>11,675,986</u></b>	<b>\$ <u>12,242,252</u></b>

See Notes to Condensed Financial Statements

UNITED-GUARDIAN, INC.

**BALANCE SHEETS**  
(continued)

**LIABILITIES AND STOCKHOLDERS' EQUITY**

	<b>SEPTEMBER 30, 2022</b>	<b>DECEMBER 31, 2021</b>
	(UNAUDITED)	(AUDITED)
<b>Current liabilities:</b>		
Accounts payable	\$ 96,589	\$ 410,894
Accrued expenses	1,546,637	1,627,390
Deferred revenue	---	190,164
Income taxes payable	---	88,738
Dividends payable	<u>21,082</u>	<u>20,575</u>
<b>Total current liabilities</b>	<u>1,664,308</u>	<u>2,337,761</u>
<b>Deferred income taxes</b>	<u>---</u>	<u>83,222</u>
<b>Commitments and contingencies</b>		
<b>Stockholders' equity:</b>		
Common stock (at \$.10 par value) (10,000,000 shares authorized; 4,594,319 shares issued and outstanding at September 30, 2022 and December 31, 2021, respectively)	459,432	459,432
Retained earnings	<u>9,552,246</u>	<u>9,361,837</u>
<b>Total stockholders' equity</b>	<u>10,011,678</u>	<u>9,821,269</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ <u>11,675,986</u></b>	<b>\$ <u>12,242,252</u></b>

See Notes to Condensed Financial Statements

UNITED-GUARDIAN, INC.

**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

**THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022**

	<u>Common stock</u>		<u>Retained</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Earnings</u>	<u>Total</u>
<b>Balance, January 1, 2022</b>	4,594,319	\$ 459,432	\$ 9,361,837	\$ 9,821,269
Net income	---	---	<u>911,465</u>	<u>911,465</u>
<b>Balance, March 31, 2022</b>	4,594,319	\$ 459,432	\$ 10,273,202	\$ 10,732,734
Net income	---	---	633,324	633,324
Dividends declared and paid (\$0.37 per share)	---	---	(1,699,392)	(1,699,392)
Dividends declared, not paid (\$0.37 per share)	---	---	<u>(506)</u>	<u>(506)</u>
<b>Balance, June 30, 2022</b>	4,594,319	\$ 459,432	\$ 9,206,728	\$ 9,666,160
Net income	---	---	<u>345,518</u>	<u>345,518</u>
<b>Balance, September 30, 2022</b>	<b><u>4,594,319</u></b>	<b><u>\$ 459,432</u></b>	<b><u>\$ 9,552,246</u></b>	<b><u>\$ 10,011,678</u></b>

**THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021**

	<u>Common stock</u>		<u>Retained</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Earnings</u>	<u>Total</u>
<b>Balance, January 1, 2021</b>	4,594,319	\$ 459,432	\$ 9,894,875	\$ 10,354,307
Net income	---	---	<u>1,181,202</u>	<u>1,181,202</u>
<b>Balance, March 31, 2021</b>	4,594,319	\$ 459,432	\$ 11,076,077	\$ 11,535,509
Net income	---	---	1,344,524	1,344,524
Dividends declared and paid (\$0.48 per share)	---	---	(2,204,616)	(2,204,616)
Dividends declared, not paid (\$0.48 per share)	---	---	<u>(657)</u>	<u>(657)</u>
<b>Balance, June 30, 2021</b>	4,594,319	\$ 459,432	\$ 10,215,328	\$ 10,674,760
Net income	---	---	<u>1,016,506</u>	<u>1,016,506</u>
<b>Balance, September 30, 2021</b>	<b><u>4,594,319</u></b>	<b><u>\$ 459,432</u></b>	<b><u>\$ 11,231,834</u></b>	<b><u>\$ 11,691,266</u></b>

See Notes to Condensed Financial Statements

UNITED-GUARDIAN, INC.

**STATEMENTS OF CASH FLOWS**  
(UNAUDITED)

**NINE MONTHS ENDED**  
**SEPTEMBER 30,**

<b>Cash flows from operating activities:</b>	<b><u>2022</u></b>	<b><u>2021</u></b>
Net income	\$ 1,890,307	\$ 3,542,232
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	102,851	106,928
Net loss (gain) on marketable securities	1,154,464	(40,419)
Gain on sale of asset	---	(14,799)
Allowance for doubtful accounts	(1,851)	13,279
Deferred income taxes	(268,410)	75,519
Decrease (Increase) in operating assets:		
Accounts receivable	688,187	(555,764)
Inventories	(883,825)	128,539
Prepaid expenses and other current assets	43,325	1,847
Prepaid income taxes	(150,633)	99,107
(Decrease) increase in operating liabilities:		
Accounts payable	(314,304)	55,358
Accrued expenses	(80,753)	179,303
Income taxes payable	(88,738)	57,614
Deferred revenue	(190,164)	---
<b>Net cash provided by operating activities</b>	<b><u>1,900,456</u></b>	<b><u>3,648,744</u></b>
<b>Cash flows from investing activities:</b>		
Acquisition of property, plant and equipment	(60,165)	(81,997)
Proceeds from sale of marketable securities	1,658,293	1,832,829
Purchases of marketable securities	<u>(1,833,879)</u>	<u>(3,094,483)</u>
<b>Net cash used in investing activities</b>	<b><u>(235,751)</u></b>	<b><u>(1,343,651)</u></b>
<b>Cash flows from financing activities:</b>		
Dividends paid	<u>(1,699,392)</u>	<u>(2,204,616)</u>
<b>Net cash used in financing activities</b>	<b><u>(1,699,392)</u></b>	<b><u>(2,204,616)</u></b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(34,687)</b>	<b>100,477</b>
Cash and cash equivalents at beginning of period	<u>531,213</u>	<u>591,444</u>
<b>Cash and cash equivalents at end of period</b>	<b>\$ <u>496,526</u></b>	<b>\$ <u>691,921</u></b>
<b>Supplemental disclosure of cash flow information:</b>		
Taxes paid	\$ <u>1,000,000</u>	\$ <u>700,000</u>
<b>Supplemental disclosure of non-cash items:</b>		
Dividends payable	\$ <u>506</u>	\$ <u>657</u>
Trade-in received from sale of asset	\$ <u>-----</u>	\$ <u>29,000</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. The Company's research and development department modifies, refines, and expands the uses for existing products for additional uses and markets. It also develops new products using natural and environmentally friendly raw materials, which is important to many of the Company's cosmetic customers.

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, including normal recurring accruals, considered necessary for the fair presentation of financial statements for the interim periods have been included. The results of operations for the three and nine months ended September 30, 2022 (also referred to as the "third quarter of 2022" and the "first nine months of 2022", respectively) are not necessarily indicative of results that ultimately may be achieved for any other interim period or for the year ending December 31, 2022. 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, 2021.

3. Impact of Coronavirus (COVID-19)

While the coronavirus pandemic ("pandemic") continues to impact certain areas of the Company's operations, the current impact on the Company's financial performance is coming primarily from higher raw material costs and increased shipping costs, which had an impact on the Company's gross profit margins in the third quarter of 2022 and may continue to have a future impact on the Company's gross profit margins in upcoming quarters. In addition, during the first half of 2022 it was more difficult to ship the Company's products due to a shortage of truck drivers and limited availability of shipping vessels. This situation improved in the third quarter of 2022. The Company had been able to minimize the impact on customers by making them aware of longer lead times that may be necessary as a result of these issues.

The pandemic has not significantly affected the ability of the Company to obtain raw materials, but has created longer lead times for some of them. In response to the rising raw material prices the Company has instituted price increases on many of its products, which will help to reduce the impact on the Company's gross margins in the future.

As a result of the lingering effects of the coronavirus pandemic as described above, there continues to be uncertainty in regard to the future potential impact of the pandemic on the Company's operations or financial results. The Company believes that it is still unable to provide an accurate estimate or projection as to what the future impact of the pandemic will be on the

Company's future operations or financial results. 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, as well as 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. 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 the time of purchase. 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 September 30, 2022 and December 31, 2021, approximately \$363,000 and \$410,000, respectively, exceeded the FDIC limit.

#### 6. 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, some of which are estimated. These deductions are recorded in the same period in which the revenue is recognized. Such deductions, primarily related to the sale of the Company's pharmaceutical products, include chargebacks from the United States Department of Veterans Affairs ("VA"), rebates in connection with the Company's current participation in Medicare programs and its past participation in 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.

During 2022 and 2021, the Company participated in various government drug rebate programs related to the sale of Renacidin<sup>®</sup>, its most important pharmaceutical product. These programs include the Veterans Affairs Federal Supply Schedule (FSS), and the Medicare Part D Coverage Gap Discount Program (CGDP). These programs require the Company to sell its product at a discounted price. The Company's sales, as reported, are net of these product rebates and discounts, some of which are estimated and are recorded in the same period that the revenue is recognized.

The Company recognizes revenue from sales of its cosmetic ingredients, medical, and industrial products when those products are shipped, as long as a valid purchase order has been received

and 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 and the Company’s performance obligation is satisfied. 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. Sales of pharmaceutical products are final, and revenue is recognized at the time of shipment, which is when the risk of loss and responsibility for the shipment passes to the customer, and the performance obligation of the Company 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 prior year 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. 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 September 30, 2022 and December 31, 2021, the allowance for doubtful accounts receivable was \$18,401 and \$20,252, 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 fee contracts with certain distributors of its pharmaceutical products that entitles them to distribution and service-related fees. The Company records distribution fees and estimates distribution fees as offsets to revenue.

Disaggregated sales by product class are as follows:

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b><u>2022</u></b>	<b><u>2021</u></b>	<b><u>2022</u></b>	<b><u>2021</u></b>
Cosmetic ingredients	\$ 841,261	\$ 1,578,650	\$ 4,313,139	\$ 5,065,022
Pharmaceutical	1,159,367	1,216,747	3,622,964	3,509,235
Medical	384,548	343,884	1,904,424	1,580,657
Industrial products	<u>31,846</u>	<u>40,465</u>	<u>95,030</u>	<u>113,678</u>
<b>Total Sales</b>	<b>\$ <u>2,417,022</u></b>	<b>\$ <u>3,179,746</u></b>	<b>\$ <u>9,935,557</u></b>	<b>\$ <u>10,268,592</u></b>

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 18% of the Company's total sales in the third quarter of 2022 were to customers located outside of the United States, compared with approximately 16% in the third quarter of 2021. For the nine months ended September 30, 2022, approximately 25% of the Company's total sales were to customers located outside of the United States, compared with approximately 21% for the nine months ended September 30, 2021.

Disaggregated sales by geographic region are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
United States*	\$ 1,969,907	\$ 2,670,515	\$ 7,403,752	\$ 8,115,145
Other countries	<u>447,115</u>	<u>509,231</u>	<u>2,531,805</u>	<u>2,153,447</u>
<b>Total Sales</b>	<b>\$ <u>2,417,022</u></b>	<b>\$ <u>3,179,746</u></b>	<b>\$ <u>9,935,557</u></b>	<b>\$ <u>10,268,592</u></b>

\* Substantially all purchases by ASI are shipped to ASI's warehouses in the U.S. As a result, all sales to ASI are reported as U.S. sales for financial reporting purposes, even though a significant quantity of those purchases will be shipped by ASI to foreign customers. ASI has reported to the Company that approximately 60% of its sales of the Company's products in the third quarter of 2022 were to foreign customers compared with 76% for the same period in 2021, with China representing approximately 37% of those foreign sales in the third quarter of 2022, compared with approximately 29% in the third quarter of 2021.

For the nine months ended September 30, 2022 approximately 71% of ASI's sales of the Company's products were to customers in other countries, with China accounting for approximately 43% of ASI's sales of the Company's products, as compared with approximately 72% of ASI's sales going to customers in other countries for the nine months ended September 30, 2021, with China accounting for approximately 36% of ASI's sales of the Company's products during that period.

## 7. Marketable Securities

Marketable securities include investments in fixed income and equity mutual funds, which are reported at their fair values.

The disaggregated net gains and losses on the marketable securities recognized in the income statements for the three and nine months ended September 30, 2022 and 2021, respectively, are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Net (losses) gains recognized during the period on marketable securities	\$ (300,526)	\$ (25,108)	\$ (1,154,464)	\$ 40,419
Less: Net (losses) gains recognized during the period on marketable securities sold during the period	<u>---</u>	<u>---</u>	<u>(207,936)</u>	<u>112,180</u>

Unrealized losses recognized during the reporting period on marketable securities still held at the reporting date	\$ <u>(300,526)</u>	\$ <u>(25,108)</u>	\$ <u>(946,528)</u>	\$ <u>(71,761)</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:

**September 30, 2022** (Unaudited)

<u>Equity Securities</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
Fixed income mutual funds	\$ 6,757,797	\$ 6,007,216	\$ (750,581)
Equity and other mutual funds	<u>676,021</u>	<u>649,369</u>	<u>(26,652)</u>
Total equity securities	<u>7,433,818</u>	<u>6,656,585</u>	<u>(777,233)</u>
Total marketable securities	\$ <u>7,433,818</u>	\$ <u>6,656,585</u>	\$ <u>(777,233)</u>

**December 31, 2021** (Audited)

<u>Equity Securities</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain</u>
Fixed income mutual funds	\$ 6,814,420	\$ 6,873,333	\$ 58,913
Equity and other mutual funds	<u>651,748</u>	<u>762,130</u>	<u>110,382</u>
Total equity securities	<u>7,466,168</u>	<u>7,635,463</u>	<u>169,295</u>
Total marketable securities	\$ <u>7,466,168</u>	\$ <u>7,635,463</u>	\$ <u>169,295</u>

Investment income is recognized when earned and consists principally of dividend income from equity and fixed income 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 \$1,658,293 for the nine months ended September 30, 2022, which included realized losses of \$207,936. Proceeds from the sale and redemption of marketable securities amounted to \$1,832,829 for the nine months ended September 30, 2021, which included realized gains of \$112,180.

## 8. Inventories

	<b>September 30, 2022</b>	<b>December 31, 2021</b>
	(UNAUDITED)	(AUDITED)
Inventories consist of the following:		
Raw materials	\$ 752,340	\$ 494,348
Work in process	88,393	119,069
Finished products	<u>1,453,881</u>	<u>797,372</u>
Total inventories	<u>\$ 2,294,614</u>	<u>\$ 1,410,789</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 September 30, 2022 and December 31, 2021 are stated net of a reserve of \$35,000 for slow moving and obsolete inventory.

## 9. 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 September 30, 2022 and December 31, 2021, the Company did not have any unrecognized tax benefits. The Company's provision for income taxes for the three and nine months ended September 30, 2022 and 2021 includes the following:

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
Provision for federal income taxes - current	\$ 305,772	\$ 340,981	\$ 761,429	\$ 856,621
Provision for state income taxes - current	---	---	100	100
(Benefit from) provision for federal income taxes – deferred	<u>(217,091)</u>	<u>(73,935)</u>	<u>(268,410)</u>	<u>75,519</u>
Total provision for income taxes	<u>\$ 88,681</u>	<u>\$ 267,046</u>	<u>\$ 493,119</u>	<u>\$ 932,240</u>

## 10. 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 immediately.

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. The Company accrued \$81,750 in contributions to the DC Plan for the nine months ended September 30, 2022, and \$87,000 for the nine months ended September 30, 2021. In the first nine months of 2022, the Company made discretionary contributions of \$109,000 to the DC Plan. This payment represented the Company's 2021 discretionary contribution. For the first nine months of 2021, the Company did not make any discretionary contributions to the DC Plan.

#### 11. Related-Party Transactions

For the three-month periods ended September 30, 2022 and 2021, there were no payments made to related parties. For the nine-month periods ended September 30, 2022 and 2021, the Company made payments of \$4,000 and \$9,500, respectively, to the accounting firm PKF O'Connor Davies ("PKF") for accounting and tax services. Lawrence Maietta, a partner at PKF, is a director of the Company.

#### 12. Other Information

##### Accrued Expenses

Accrued expenses consist of the following:

<b><u>Accrued Expenses</u></b>	<b>September 30, 2022</b> (Unaudited)	<b>December 31, 2021</b> (Audited)
Bonuses	\$ 218,323	\$ 348,000
Distribution fees	373,625	359,550
Payroll and related expenses	257,744	292,560
Reserve for outdated material	353,259	313,904
Company 401(k) contribution	81,750	109,000
Audit fee	62,250	61,500
Annual report expenses	49,451	64,038
Sales rebates	108,928	56,857
Other	<u>41,307</u>	<u>21,981</u>
Total Accrued Expenses	\$ <u>1,546,637</u>	\$ <u>1,627,390</u>

#### 13. Recent Accounting Pronouncements

On January 1, 2021, the Company adopted Accounting Standards Update (ASU) 2019-12, "Simplifying the Accounting for Income Taxes." This standard modified ASU 740 and simplifies the accounting for income taxes. The Company has determined that these modifications did not 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 currently evaluating if this pronouncement will have a potential impact on its financial statements.

#### 14. Concentrations of Credit Risk

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 and its overall credit worthiness 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 September 30, 2022, one of the Company's cosmetic ingredient marketing partners, and three of its pharmaceutical distributors, together accounted for 89% of the Company's sales and 86% of its outstanding accounts receivable at September 30, 2022. During the three months ended September 30, 2021, the same marketing partner and three distributors together were responsible for 86% of the Company's sales and 79% of its outstanding accounts receivable at September 30, 2021.

For the nine months ended September 30, 2022, one of the Company's cosmetic ingredient marketing partners, and three of its pharmaceutical distributors, together accounted for 78% of the Company's sales and 86% of its outstanding accounts receivable at September 30, 2022. During the nine months ended September 30, 2021, the same marketing partner and three distributors together were responsible for 79% of the Company's sales and 79% of its outstanding accounts receivable at September 30, 2021.

#### 15. Earnings Per Share

Basic earnings per share is computed by dividing net 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 were \$0.07 and \$0.22 for the three months ended September 30, 2022 and 2021, respectively, and \$0.41 and \$0.77 for the nine months ended September 30, 2022 and 2021, respectively.

## **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.

### **OVERVIEW**

The Company is a Delaware corporation that, through its Guardian Laboratories division, conducts research, product development, manufacturing, and marketing of cosmetic ingredients, personal and health care products, pharmaceuticals, non-pharmaceutical medical products, and proprietary specialty industrial products. All the products that the Company markets, with the exception of Renacidin, are produced at its facility in Hauppauge, New York. Renacidin, a urological product, is manufactured for the Company by an outside contract manufacturer.

The Company's most important product line is its Lubrajel<sup>®</sup> line of water-based moisturizing and lubricating gels, which are used primarily as ingredients in cosmetic products but are also used in medical products, primarily catheter lubricants. These products are marketed worldwide for cosmetic uses by five marketing partners, each handling a different geographic area, with the largest being U.S.-based ASI. 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.

Renacidin and the Company's other pharmaceutical product, Clorpactin<sup>®</sup>, which is also used primarily in urology, are distributed through full-line drug wholesalers and marketed only in the United States. Those wholesalers 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 promotes Renacidin through internet advertising as well as a dedicated website. Clorpactin and some of the Company's other products are marketed through information provided on the Company's corporate website.

The Company's non-pharmaceutical medical products, such as its catheter lubricants, as well as its specialty industrial products, are sold directly to end-users, or to contract manufacturers utilized by those end-users. They are also available for marketing on a non-exclusive basis by the Company's marketing partners.

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 several registered trademarks, the two most important of which are "Lubrajel" and "Renacidin." However, regarding the 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 protection they afford, and the difficulty and expense of enforcing them globally. 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 coronavirus pandemic ("pandemic") continues to impact certain areas of the Company's operations, the current impact on the Company's financial performance is coming primarily from higher raw material costs and increased shipping costs, which had an impact on the Company's gross profit margins in the first nine months of 2022 and may continue to have a future impact on the Company's gross profit margins in upcoming quarters. In addition, during the first half of 2022 it was more difficult to ship the Company's products due to a shortage of truck drivers and limited availability of shipping vessels. This situation improved in the third quarter of 2022. The Company had been able to minimize the impact on customers by making them aware of longer lead times that may be necessary as a result of these issues.

The pandemic has not significantly affected the ability of the Company to obtain raw materials, but it has created longer lead times for some of them. In response to the rising raw material prices the

Company has instituted price increases on many of its products, which will help to reduce the impact on the Company's gross margins in the future.

As a result of the lingering effects of the coronavirus pandemic as described above, there continues to be uncertainty in regard to the future potential impact of the pandemic on the Company's operations or financial results. The Company believes that it is still unable to provide an accurate estimate or projection as to what the future impact of the pandemic will be on the Company's future operations or financial results. The Company does not expect the carrying value of its assets or its liquidity to be impaired by the coronavirus pandemic.

## **CRITICAL ACCOUNTING POLICIES**

As disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2021, 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, 2021, 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, 2021, and a comparison of the results of operations for the third quarter of 2022 and 2021 and the first nine months of 2022 and 2021. 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, 2021. 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. 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 third quarter of 2022 decreased by \$762,724 (24%) when compared with the same period in 2021. Net sales for the first nine months of 2022 decreased by \$333,035 (3%) as compared with the corresponding period in 2021. The decrease in sales for both the third quarter of 2022 and the first nine months of 2022 were attributable to changes in sales of the following product lines:

#### Cosmetic ingredients:

**a) Third quarter sales:** For the third quarter of 2022, the Company's sales of cosmetic ingredients decreased by \$737,389 (47%) when compared with the third quarter of 2021. The decrease in third quarter sales was due primarily to a decrease of \$502,678 (39%) in gross sales of the Company's cosmetic products to ASI (the net sales decrease, which incorporates rebates totaling \$54,091, was \$556,769). Based on information provided to the Company by ASI, the Company's marketing partner in China, the decrease was due to several reasons, the most significant being a decrease in shipments of the Company's products to China due to the continuing impact in China of the coronavirus pandemic. In addition, ordering patterns by certain customers, as well as some overstocking issues by one of ASI's customers that switched to a different formulation of one of the Company's products, all added to the lower sales for the quarter. ASI has indicated that it is not aware of any significant loss of customers and anticipates that sales will increase during the next twelve months.

Third quarter sales to the Company's four other marketing partners, as well as to one direct cosmetic ingredient customer, decreased by a net of \$180,620 (65%) compared with the third quarter of 2021. Sales to the Company's marketing partners in the United Kingdom, Switzerland, France, and one direct customer decreased by a total of \$205,248 (77%), while sales to the Company's marketing partner in Italy increased by \$24,628 (297%).

**b) Nine-month sales:** For the first nine months of 2022, the Company's sales of cosmetic ingredients decreased by \$751,883 (15%) when compared with the same period in 2021. This decrease was due primarily to a decrease of \$478,986 (12%) in gross sales to ASI (the net sales decrease, which incorporates rebates totaling \$182,371, was \$662,677). The reason for the decrease in sales to ASI during the first nine months of 2022 are the same as the decrease in sales for the third quarter discussed above.

Cosmetic ingredient sales for the first nine months of the year to the Company's four other marketing partners, as well as to four direct cosmetic customers, decreased by a net of \$89,206 (9%) compared with the same period in 2021. Nine-month sales to the Company's marketing partners in the UK, France, Switzerland and four small direct cosmetic customers decreased by \$124,251 (13%), while sales to the Company's marketing partner in Italy, increased by \$35,045 (54%).

#### Pharmaceuticals:

Because there are fees, rebates and allowances associated with sales of the Company's two pharmaceutical products, Renacidin and Clorpectin, 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).

Gross sales of the Company's pharmaceutical products for the three-month period ended September 30, 2022 decreased by \$71,583 (5%) compared with the corresponding period in 2021, while gross sales for the nine-month period ended September 30, 2022 increased by \$91,299 (2%). The decrease in sales for the three-month period ended September 30, 2022 was due primarily to a decrease of \$83,746 (6%) in gross sales of Renacidin. For the nine-month period ended September 30, 2022, the increase was due to an increase in gross sales of Renacidin of \$44,263 (1%) combined with an increase in gross sales of the Company's other pharmaceutical product, Clorpactin, in the amount of \$47,036 (9%). The Company believes that the fluctuations in sales for both periods are due to the timing of orders from its distributors of those products.

As sales of the Company's pharmaceutical products fluctuate there is typically a corresponding direct relationship in the related allowances, such as for distribution fees, VA chargebacks, Medicare rebates, sales rebates and discounts and outdated material returns. For the three-month period ended September 30, 2022, these pharmaceutical related allowances decreased by \$14,203 (5%), compared with the same period in 2021. For the nine-month period ended September 30, 2022 these allowances decreased by \$22,430 (3%). Despite experiencing an increase in pharmaceutical sales for the first nine months of 2022, the Company believes that the decrease in allowances was a result of having a more favorable pricing structure in place on its VA contract sales during 2022.

#### **Medical (non-pharmaceutical) products:**

Sales of the Company's medical products increased by \$40,664 (12%) and \$323,767 (20%), respectively, for the three- and nine-month periods ended September 30, 2022, compared with the same periods in 2021. The increase in medical product sales for both periods was primarily attributable to an increase in shipments to one of the Company's larger direct medical product customers located in China.

#### **Industrial products:**

Sales of the Company's industrial products decreased by \$8,619 (21%) and by \$18,648 (16%), respectively, for the three and nine months ended September 30, 2022, when compared with the corresponding periods in 2021. The decrease in sales for both periods was primarily due to a decrease in orders from one of the Company's larger industrial product customers, who was purchasing a product that the Company discontinued during the second quarter of 2022.

#### **Cost of Sales**

Cost of sales as a percentage of sales increased to 45% in the third quarter of 2022, up from 42% in the third quarter of 2021. For the first nine months of 2022, cost of sales as a percentage of sales increased to 45%, up from 41% in 2021. The increases in both periods were a result of 1) increased raw material costs in 2022 compared with 2021; 2) increased freight costs in 2022 compared with 2021; 3) the increased percentage of sales derived from the Company's pharmaceutical products, especially in the third quarter of 2022, as these products are sold at a lower profit margin than the Company's other product lines; and 4) the recording of \$182,371 in

rebates payable to one of the Company's marketing partners during the nine-month period ending September 30, 2022. In addition, the Company had recorded a one-time Employee Retention Credit ("ERC") of \$104,827 in the first nine months of 2021, which reduced the cost of sales for that period.

### **Operating Expenses**

Operating expenses, consisting of selling and general and administrative expenses, increased by \$73,751 (16%) for the third quarter of 2022 compared with the equivalent period in 2021. Operating expenses increased by \$270,590 (19%) for the first nine months of 2022, compared with the equivalent period in 2021. The increase in operating expenses for the third quarter of 2022 was due primarily to (a) an increase of \$24,000 in fees to the independent members of the Company's Board of Directors in connection with the effort to recruit a new President & CEO; (b) increases in the Company's Directors & Officers liability insurance and other insurance-related expenses; and (c) an increase in legal fees to the Company's outside SEC counsel. The increase in operating expenses for the first nine months of 2022 was due to (a) an increase of \$95,000 in fees to the independent members of the Company's Board of Directors relating to the Company's efforts to explore strategic alternatives for the Company, as well as the Board's effort to recruit a new President and CEO for the Company; (b) an increase of \$35,000 in insurance-related expenses; (c) increases in certain employee fringe benefits; and (d) the recording of an ERC in 2021, which offset some of the Company's payroll expense in 2021 and which was not available to the Company in 2022. Due to the current inflationary environment, the Company expects to see minor increases in operating expenses for the remainder of the year.

### **Research and Development Expenses**

Research and development expenses decreased by \$9,818 (8%) for the third quarter of 2022, and increased by \$15,803 (5%) for the first nine months of 2022 compared with the same periods in 2021. The decrease for the third quarter was primarily due to a decrease in certain employee fringe benefit costs. The increase for the nine-month period was primarily due to the recording of the ERC in 2021, which reduced research and development costs. After taking the ERC into account, research and development expenses for the nine-month period ending September 30, 2022 decreased by 3%.

### **Investment Income**

Investment income increased by \$8,248 (21%) and by \$22,258 (18%), respectively, for the three and nine-month periods ending September 30, 2022, compared with the equivalent periods in 2021. The increases in both periods were due to increases in dividend income received from both equity and fixed income mutual funds.

### **Net (loss) Gain on Marketable Securities**

The net loss on marketable securities increased by \$275,418 and \$1,194,883 for the three and nine-month periods ended September 30, 2022 compared with the same periods in 2021. Approximately 90% of the Company's marketable securities portfolio is composed of fixed income mutual funds. The Company intentionally weighted its portfolio as such in an effort to minimize significant stock market fluctuations. However, given the current inflationary environment and the rise of interest rates, management believes that the decrease in the market value of the

Company's fixed income mutual funds will be temporary but will continue to be volatile. The Company's management and Board of Directors are continuing to closely monitor the Company's investment portfolio and will make any adjustments they believe may be necessary or appropriate in order to minimize the future impact on the Company's financial position that the volatility of the global financial markets may have.

### **Provision for Income Taxes**

The Company's effective income tax rate was approximately 21% for the first nine months of 2022 and 2021. The Company's tax rate is expected to remain at 21% for the current fiscal year.

## **LIQUIDITY AND CAPITAL RESOURCES**

Working capital decreased from \$9,245,629 at December 31, 2021 to \$9,210,314 at September 30, 2022, a decrease of \$35,315. The current ratio increased from 5.0 to 1 at December 31, 2021 to 6.5 to 1 at September 30, 2022. The decrease in working capital was primarily due to decreases in marketable securities and accounts receivable, partially offset by an increase in inventories. The increase in the current ratio was primarily due to decreases in accounts payable, deferred revenue and income taxes payable.

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 expects to incur costs of approximately \$100,000 in the fourth quarter of 2022 in connection with an upgrade to its building sprinkler system.

The Company generated cash from operations of \$1,900,456 and \$3,648,744 for the nine months ended September 30, 2022 and September 30, 2021, respectively. The decrease in cash from operations was primarily due to a decrease in net income.

Cash used in investing activities for the nine-month period ended September 30, 2022 was \$235,751. Cash used in investing activities for the nine-months ended September 30, 2021 was \$1,343,651. The decrease was primarily due to a decrease in purchases of marketable securities during 2022. Due to rising raw material and freight costs over the first nine months of 2022, the Company utilized excess cash flow to support these increased production costs, thereby reducing its marketable securities purchases.

Cash used in financing activities was \$1,699,392 and \$2,204,616 for the nine months ended September 30, 2022 and September 30, 2021, respectively. The decrease was due to a decrease in the dividends paid from \$0.48 per share in 2021 to \$0.37 per share in 2022.

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.

## **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**

### **IMPACT OF COVID-19**

The impact of the coronavirus pandemic on the Company's sales significantly lessened in 2021 compared with 2020, when the pandemic has its most significant impact on the Company's sales. While the global impact of the pandemic continues to abate, it is likely that there will continue to be some impact on sales of the Company's cosmetic ingredients, especially in connection with the Company's sales in China, where the pandemic is still having a significant impact on the economy. The pandemic is still causing increases in Company's packaging, shipping, and raw material costs. Due to the uncertainty surrounding the duration of the pandemic and its impact in the various countries in which the Company does business, it is difficult for the Company to provide an accurate estimate or projection as to what the future impact of the pandemic will be on the Company's future operations or financial results. The pandemic had not impacted sales of the Company's pharmaceutical products, and has had only a minor impact on sales of some of the Company's medical products.

The Company does not anticipate that the pandemic will affect its ability to obtain raw materials and maintain production, and the Company has multiple sources for many of its raw materials. However, some of the Company's raw materials have experienced price increases, which could impact the manufacturing cost of some of the Company's products in the future. The Company may or may not be able to pass along and recoup these price increases, depending on the product. The Company expects to be able to maintain production levels sufficient to ship orders on a timely basis, subject to availability of truck drivers.

## **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**

- 10.1\* Employment Agreement between Beatriz Blanco and the Company dated October 10, 2022
- 10.2\* Memorandum of Understanding (separation agreement) between Ken Globus and the Company effective November 1, 2022

- 31.1\* Certification of Beatriz Blanco, President and Principal Executive Officer of the Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2\* Certification of Andrea Young, Chief Financial Officer of the Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32\* Certifications of Principal Executive Officer and Chief Financial Officer of the Company, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS\* Inline XBRL Instance Document – The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the inline XBRL document.
- 101.SCH\* Inline XBRL Taxonomy Extension Schema Document.
- 101.CAL\* Inline XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.DEF\* Inline XBRL Taxonomy Extension Definition Linkbase Document.
- 101.LAB\* Inline XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE\* Inline XBRL Taxonomy Extension Presentation Linkbase Document.
- 104\* Cover Page Interactive Data File (Embedded within the inline XBRL document and included in Exhibit 101.1).

---

\* Filed herewith

## 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.

Date: November 3, 2022

UNITED-GUARDIAN, INC.  
(Registrant)

By: /S/ BEATRIZ BLANCO  
Beatriz Blanco  
President

By: /S/ ANDREA YOUNG  
Andrea Young  
Chief Financial Officer