

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, 2023

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:

Title of each class	Trading Symbol	Name of each exchange on which registered
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, 2023, 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, 2023 and 2022	2
Balance Sheets – September 30, 2023 (unaudited) and December 31, 2022 (audited)	3-4
Statements of Changes in Stockholders' Equity – Three and Nine Months ended September 30, 2023 and 2022	5
Statements of Cash Flows - Nine Months ended September 30, 2023 and 2022	6
Notes to Condensed Financial Statements	7-16
Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations	16-23
Item 3 - Quantitative and Qualitative Disclosures About Market Risk	23
Item 4 - Controls and Procedures	23-24

Part II. OTHER INFORMATION

Item 1 - Legal Proceedings	24
Item 1A - Risk Factors	24
Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds	24
Item 3 - Defaults Upon Senior Securities	24
Item 4 - Mine Safety Disclosures	24
Item 5 - Other Information	24
Item 6 - Exhibits	25

Signatures	25
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Part I. FINANCIAL INFORMATION

ITEM 1. Condensed Financial Statements

STATEMENTS OF INCOME

(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Net sales	\$ <u>3,057,518</u>	\$ <u>2,417,022</u>	\$ <u>8,278,141</u>	\$ <u>9,935,557</u>
Costs and expenses:				
Cost of sales	1,749,041	1,076,035	4,272,043	4,479,905
Operating expenses	488,464	532,333	1,580,503	1,699,311
Research and development	<u>98,141</u>	<u>120,924</u>	<u>353,829</u>	<u>364,856</u>
Total costs and expenses	<u>2,335,646</u>	<u>1,729,292</u>	<u>6,206,375</u>	<u>6,544,072</u>
Income from operations	<u>721,872</u>	<u>687,730</u>	<u>2,071,766</u>	<u>3,391,485</u>
Other Income:				
Investment income	79,682	46,995	182,264	146,405
Net (loss) gain on marketable securities	<u>(14,357)</u>	<u>(300,526)</u>	<u>65,823</u>	<u>(1,154,464)</u>
Total other income (expense)	<u>65,325</u>	<u>(253,531)</u>	<u>248,087</u>	<u>(1,008,059)</u>
Income before provision for income taxes	787,197	434,199	2,319,853	2,383,426
Provision for income taxes	<u>160,441</u>	<u>88,681</u>	<u>475,922</u>	<u>493,119</u>
Net income	\$ <u>626,756</u>	\$ <u>345,518</u>	\$ <u>1,843,931</u>	\$ <u>1,890,307</u>
Earnings per common share (Basic and Diluted)	\$ <u>0.14</u>	\$ <u>0.07</u>	\$ <u>0.40</u>	\$ <u>0.41</u>
Weighted average shares – basic and diluted	4,594,319	4,594,319	4,594,319	4,594,319

See Notes to Condensed Financial Statements

UNITED-GUARDIAN, INC.

BALANCE SHEETS

ASSETS

	SEPTEMBER 30, <u>2023</u> (UNAUDITED)	DECEMBER 31, <u>2022</u> (AUDITED)
Current assets:		
Cash and cash equivalents	\$ 7,116,131	\$ 830,452
Marketable securities	928,847	5,653,516
Accounts receivable, net of allowance for credit losses of \$28,613 at September 30, 2023 and \$20,063 at December 31, 2022	1,816,242	1,427,576
Inventories, net	1,228,076	1,672,012
Prepaid expenses and other current assets	132,699	201,846
Prepaid income taxes	<u>393,636</u>	<u>185,228</u>
Total current assets	<u>11,615,631</u>	<u>9,970,630</u>
Deferred income taxes	<u>----</u>	<u>110,544</u>
Net property, plant, and equipment:		
Land	69,000	69,000
Factory equipment and fixtures	4,615,387	4,585,055
Building and improvements	<u>2,937,746</u>	<u>2,895,742</u>
Total property, plant, and equipment	7,622,133	7,549,797
Less: Accumulated depreciation	<u>7,064,991</u>	<u>6,990,636</u>
Total property, plant, and equipment, net	<u>557,142</u>	<u>559,161</u>
TOTAL ASSETS	\$ <u>12,172,773</u>	\$ <u>10,640,335</u>

See Notes to Condensed Financial Statements

UNITED-GUARDIAN, INC.

BALANCE SHEETS
(continued)

LIABILITIES AND STOCKHOLDERS' EQUITY

	SEPTEMBER 30, 2023	DECEMBER 31, 2022
	(UNAUDITED)	(AUDITED)
Current liabilities:		
Accounts payable	\$ 166,199	\$ 30,415
Accrued expenses	1,286,166	1,322,056
Dividends payable	<u>21,265</u>	<u>21,220</u>
Total current liabilities	<u>1,473,630</u>	<u>1,373,691</u>
Deferred income taxes	<u>48,000</u>	<u>---</u>
Commitments and contingencies		
Stockholders' equity:		
Common stock (at \$.10 par value) (10,000,000 shares authorized; 4,594,319 shares issued and outstanding at September 30, 2023 and December 31, 2022, respectively)	459,432	459,432
Retained earnings	<u>10,191,711</u>	<u>8,807,212</u>
Total stockholders' equity	<u>10,651,143</u>	<u>9,266,644</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ <u>12,172,773</u>	\$ <u>10,640,335</u>

See Notes to Condensed Financial Statements

UNITED-GUARDIAN, INC.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023

	Common stock		Retained	
	<u>Shares</u>	<u>Amount</u>	<u>Earnings</u>	<u>Total</u>
Balance, January 1, 2023	4,594,319	\$ 459,432	\$ 8,807,212	\$ 9,266,644
Net income	---	---	<u>756,081</u>	<u>756,081</u>
Balance, March 31, 2023	4,594,319	\$ 459,432	\$ 9,563,293	\$ 10,022,725
Net income	---	---	<u>461,094</u>	<u>461,094</u>
Balance, June 30, 2023	4,594,319	\$ 459,432	\$ 10,024,387	\$ 10,483,819
Net income	---	---	626,756	626,756
Dividends declared and paid (\$0.10 per share)	---	---	(459,387)	(459,387)
Dividends declared, not paid (\$0.10 per share)	---	---	<u>(45)</u>	<u>(45)</u>
Balance, September 30, 2023	<u>4,594,319</u>	<u>\$ 459,432</u>	<u>\$ 10,191,711</u>	<u>\$ 10,651,143</u>

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022

	Common stock		Retained	
	<u>Shares</u>	<u>Amount</u>	<u>Earnings</u>	<u>Total</u>
Balance, January 1, 2022	4,594,319	\$ 459,432	\$ 9,361,837	\$ 9,821,269
Net income	---	---	<u>911,465</u>	<u>911,465</u>
Balance, March 31, 2022	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>
Balance, June 30, 2022	4,594,319	\$ 459,432	\$ 9,206,728	\$ 9,666,160
Net income	---	---	<u>345,518</u>	<u>345,518</u>
Balance, September 30, 2022	<u>4,594,319</u>	<u>\$ 459,432</u>	<u>\$ 9,552,246</u>	<u>\$ 10,011,678</u>

See Notes to Condensed Financial Statements

UNITED-GUARDIAN, INC.

STATEMENTS OF CASH FLOWS
(UNAUDITED)

**NINE MONTHS ENDED
SEPTEMBER 30,**

Cash flows from operating activities:	<u>2023</u>	<u>2022</u>
Net income	\$ 1,843,931	\$ 1,890,307
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	74,355	102,851
Net (gain) loss on marketable securities	(65,823)	1,154,464
Gain on sale of equipment	(10,000)	---
Allowance for credit losses	8,550	(1,851)
Allowance for obsolete inventory	37,000	---
Deferred income taxes	158,544	(268,410)
(Increase) decrease in operating assets:		
Accounts receivable	(397,216)	688,187
Inventories	406,936	(883,825)
Prepaid expenses and other current assets	69,147	43,325
Prepaid income taxes	(208,408)	(150,633)
Increase (decrease) in operating liabilities:		
Accounts payable	135,784	(314,304)
Accrued expenses	(35,890)	(80,753)
Income taxes payable	---	(88,738)
Deferred revenue	<u>---</u>	<u>(190,164)</u>
Net cash provided by operating activities	<u>2,016,910</u>	<u>1,900,456</u>
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(72,336)	(60,165)
Proceeds from sale of equipment	10,000	---
Proceeds from sale of marketable securities	5,255,145	1,658,293
Purchases of marketable securities	<u>(464,653)</u>	<u>(1,833,879)</u>
Net cash provided by (used in) investing activities	<u>4,728,156</u>	<u>(235,751)</u>
Cash flows from financing activities:		
Dividends paid	<u>(459,387)</u>	<u>(1,699,392)</u>
Net cash used in financing activities	<u>(459,387)</u>	<u>(1,699,392)</u>
Net increase (decrease) in cash and cash equivalents	6,285,679	(34,687)
Cash and cash equivalents at beginning of period	<u>830,452</u>	<u>531,213</u>
Cash and cash equivalents at end of period	\$ <u>7,116,131</u>	\$ <u>496,526</u>
Supplemental disclosure of cash flow information:		
Taxes paid	\$ <u>525,000</u>	\$ <u>1,000,000</u>
Supplemental disclosure of non-cash items:		
Dividends payable	\$ <u>45</u>	\$ <u>506</u>

See Notes to Condensed Financial Statements

UNITED-GUARDIAN, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

(UNAUDITED)

1. Nature of Business

United-Guardian, Inc. ("Registrant" or "Company") is a Delaware corporation that, through its Guardian Laboratories division, manufactures and markets cosmetic ingredients, pharmaceuticals, and medical lubricants. Prior to July 1, 2023, the Company manufactured and reported sales of an industrial line of products; however, this product line was discontinued after the second quarter of 2023 due to low sales volume with no growth. The Company conducts research and product development and modifies, refines, and expands the uses for existing products, with the goal of further developing the market for its products. The Company also develops new products using natural and environmentally friendly raw materials, which is a priority for 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, 2023 (also referred to as the "third quarter of 2023" and the "first nine months of 2023", respectively) are not necessarily indicative of results that ultimately may be achieved for any other interim period or for the year ending December 31, 2023. 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, 2022.

3. Impact of the Coronavirus Pandemic, Global Supply Chain Instability, and Inflation

There continues to be residual impact on the Company's business and financial performance from the coronavirus pandemic. In particular, there has been decreased demand for the Company's Lubrajel[®] products in China as a result of (a) slower than expected post-COVID economic recovery in China; (b) increased competition from lower-priced competitors, especially those from Asian producers; and (c) slower destocking rate while the zero-COVID mandate was in effect in China for much of 2022.

As a result of the ongoing supply chain instability, the Company has experienced longer lead times for many of its raw materials. While raw material prices have stabilized, the increases in raw material prices that the Company experienced during 2022 and early 2023, have negatively impacted the Company's gross profit margins in the first half of 2023. As a result, the Company instituted price increases on many of its products to offset these increased raw material costs.

While inflation has lessened during 2023, any future increases in the inflation rate will likely increase raw material costs, shipping costs, and internal labor costs, which could negatively impact the Company's future gross margins.

With the residual effects of the coronavirus pandemic, combined with global supply chain instability and inflation, there continues to be uncertainty regarding the potential impact on the Company's operations and its financial results. As a result the Company is unable to provide an accurate estimate or projection as to what the future impact will be on the Company's operations and its financial performance going forward.

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 financially strong, FDIC-insured financial institutions, and it believes that any amounts above FDIC insurance limitations are at minimal risk. The amounts held in excess of FDIC limits at any point in time are considered temporary and are primarily due to the timing of maturities on United States Treasury Bills. 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, 2023 and December 31, 2022, \$664,879 and \$105,000, respectively, exceeded the FDIC limit.

Cash and cash equivalents include currency on hand, demand deposits with banks or financial institutions, and short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present minimal risk of changes in value because of changes in interest rates. The following table summarizes the Company's cash and cash equivalents:

	September 30, <u>2023</u>	December 31, <u>2022</u>
Demand deposits	\$ 396,540	\$ 314,685
Certificates of Deposit (original 3-month maturity)	500,000	---
Money market funds	514,017	18,590

U.S. Treasury Bills (original 3-month maturity)	<u>5,705,574</u>	<u>497,177</u>
Total cash and cash equivalents	\$ <u>7,116,131</u>	\$ <u>830,452</u>

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 participation in Medicare 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 2023 and 2022, the Company participated in various government drug rebate programs related to the sale of Renacidin[®], 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 and medical lubricants 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 its 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. At September 30, 2023 and 2022, the Company had an allowance of \$271,832 and \$353,259, respectively, for possible outdated material returns, which is included in accrued expenses.

The Company has distribution fee contracts with certain distributors of its pharmaceutical products that entitle them to distribution and service-related fees. The Company estimates distribution fees and records distribution fees as offsets to revenue.

Disaggregated sales by product class are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Cosmetic ingredients	\$ 1,197,178	\$ 841,261	\$ 2,731,966	\$ 4,313,139
Pharmaceutical	1,196,393	1,159,367	3,927,218	3,622,964
Medical lubricants	663,947	384,548	1,567,363	1,904,424
Industrial products	---	<u>31,846</u>	<u>51,594</u>	<u>95,030</u>
Total Sales	\$ <u>3,057,518</u>	\$ <u>2,417,022</u>	\$ <u>8,278,141</u>	\$ <u>9,935,557</u>

The Company's cosmetic ingredients are marketed worldwide by five distributors, of which U.S.-based Ashland Specialty Ingredients ("ASI") purchases the largest volume. Approximately 26% of the Company's total sales in the third quarter of 2023 were to customers located outside of the United States, compared with approximately 18% in the third quarter of 2022. For the nine months ended September 30, 2023, approximately 24% of the Company's total sales were to customers located outside of the United States, compared with approximately 25% for the nine months ended September 30, 2022.

Disaggregated sales by geographic region are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
United States*	\$ 2,247,677	\$ 1,969,907	\$ 6,257,453	\$ 7,403,752
Other countries	<u>809,841</u>	<u>447,115</u>	<u>2,020,688</u>	<u>2,531,805</u>
Total Sales	\$ <u>3,057,518</u>	\$ <u>2,417,022</u>	\$ <u>8,278,141</u>	\$ <u>9,935,557</u>

* 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 71% of its sales of the Company's products in the third quarter of 2023 were to foreign customers compared with 60% for the same period in 2022, with China

representing approximately 23% of those foreign sales in the third quarter of 2023, compared with approximately 37% in the third quarter of 2022.

For the nine months ended September 30, 2023 approximately 69% of ASI's sales of the Company's products were to foreign customers, with China accounting for approximately 27% of ASI's sales of the Company's products, as compared with approximately 69% of ASI's sales going to customers in other countries for the nine months ended September 30, 2022, with China accounting for approximately 42% of ASI's sales of the Company's products during that period.

7. Accounting for Financial Instruments – Credit Losses

On January 1, 2023, the Company adopted ASU 2016-13, Financial Instruments – Credit Losses. In accordance with this standard, the Company recognizes an allowance for credit losses for its trade receivables to present the net amount expected to be collected as of the balance sheet date. This allowance is based on the credit losses expected to arise over the life of the asset and are based on Current Expected Credit Losses (CECL). Implementation of this standard did not have a material effect on the Company's financial statements.

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 provides allowances for any receivables for which collection is doubtful in accordance with ASU 2016-13. As of September 30, 2023 and December 31, 2022, the allowance for credit losses was \$28,613 and \$20,063, respectively. Prompt-pay discounts are offered to some customers; however, due to the uncertainty of the customers taking the discounts, the discounts are recorded only after they have been taken.

8. Marketable Securities

Marketable securities include investments in fixed income and equity mutual funds and certificates of deposit. The Company's mutual funds are reported at their fair values and the certificates of deposit are reported at amortized cost.

The disaggregated net gains and losses on the marketable securities recognized in the income statements for the three and nine months ended September 30, 2023 and 2022, respectively, are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Net (losses) gains recognized during the period on marketable securities	\$ (14,357)	\$ (300,526)	\$ 65,823	\$ (1,154,464)
Less: Net losses recognized during the period on marketable securities sold during the period	---	---	<u>(433,769)</u>	<u>(207,936)</u>
Unrealized (losses) gains recognized during the reporting period on marketable securities still held at the reporting date	\$ <u>(14,357)</u>	\$ <u>(300,526)</u>	\$ <u>499,592</u>	\$ <u>(946,528)</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, 2023 (Unaudited)

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
Equity Securities:			
Equity and other mutual funds	\$ 542,131	\$ 528,847	\$ (13,284)
Other short-term investments:			
Fixed income certificates of deposit	\$ 400,000	\$ 400,000	---
Total marketable securities	\$ 942,131	\$ 928,847	\$ (13,284)

December 31, 2022 (Audited)

<u>Equity Securities</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized gain (loss)</u>
Fixed income mutual funds	\$ 5,449,227	\$ 4,924,497	\$ (524,730)
Equity and other mutual funds	717,165	729,019	11,854
Total equity securities	<u>6,166,392</u>	<u>5,653,516</u>	<u>(512,876)</u>
Total marketable securities	\$ 6,166,392	\$ 5,653,516	\$ (512,876)

Investment income is recognized when earned and consists principally of dividend income from equity and fixed income mutual funds and interest income from United States Treasury Bills, certificates of deposit and money market 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 \$5,255,145 for the nine months ended September 30, 2023, which included realized losses of \$433,769. 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.

9. Inventories

	September 30, 2023 (UNAUDITED)	December 31, 2022 (AUDITED)
Inventories consist of the following:		
Raw materials	\$ 591,407	\$ 601,125
Work in process	101,475	16,520
Finished products	<u>535,194</u>	<u>1,054,367</u>
Total inventories	\$ <u>1,228,076</u>	\$ <u>1,672,012</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, 2023 and December 31, 2022 are stated net of a reserve of \$101,000 and \$64,000, respectively, for slow moving and obsolete inventory.

10. 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, 2023 and December 31, 2022, 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, 2023 and 2022 includes the following:

	Three months ended September 30,		Nine months ended September 30,	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Provision for federal income taxes - current	\$ 152,350	\$ 305,772	\$ 317,128	\$ 761,429
Provision for state income taxes - current	---	---	250	100
Provision for (benefit from) federal income taxes – deferred	<u>8,091</u>	<u>(217,091)</u>	<u>158,544</u>	<u>(268,410)</u>
Total provision for income taxes	\$ <u>160,441</u>	\$ <u>88,681</u>	\$ <u>475,922</u>	\$ <u>493,119</u>

11. 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, 2023 and September 30, 2022. In the first nine months of 2023, the Company made discretionary contributions of \$ 94,326 to the DC Plan. This payment represented the remaining portion of the Company’s 2022 discretionary contribution. For the first nine months of 2022, the Company made discretionary contributions in the amount of \$109,000 to the DC Plan.

12. Related-Party Transactions

For the three- and nine-month periods ended September 30, 2023, the Company made payments of \$30,000 and \$90,000, respectively, to Ken Globus, the Company’s former President, for consulting services provided to the Company. There were no payments made to Mr. Globus for consulting services in the corresponding periods in 2022.

For the three- and nine-month periods ended September 30, 2023, the Company made payments of \$9,000 and \$12,000, 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. For the three-month period ended September 30, 2022, there were no payments made to PKF. For the nine-month period ended September 30, 2022, the Company made payments of \$4,000 to PKF for accounting and tax services.

13. Other Information

Accrued Expenses

Accrued expenses consist of the following:

<u>Accrued Expenses</u>	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Bonuses	\$ 140,252	\$ 175,496
Distribution fees	409,742	395,536
Payroll and related expenses	95,313	53,475
Reserve for outdated material	271,832	369,154
Company 401(k) contribution	81,750	94,326
Audit fee	60,250	66,500
Annual report expenses	54,475	68,349
Sales rebates	123,784	80,926
Insurance	21,625	---
Other	<u>27,143</u>	<u>18,294</u>
Total Accrued Expenses	\$ <u>1,286,166</u>	\$ <u>1,322,056</u>

14. Recent Accounting Pronouncements

In January 2023, the Company adopted ASU-2016-13 “Financial Instruments – Credit Losses.” This guidance introduces a new credit loss methodology, Current Expected Credit Losses

("CECL"), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk. 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. Implementation of this standard did not have a material effect on the Company's financial statements.

15. 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, 2023, one of the Company's cosmetic ingredient distributors, and three of its pharmaceutical distributors, together accounted for 81% of the Company's sales and 83% of its outstanding accounts receivable at September 30, 2023. During the three months ended September 30, 2022, the same cosmetic ingredient distributor and three pharmaceutical distributors together were responsible for 89% of the Company's sales and 86% of its outstanding accounts receivable at September 30, 2022.

For the nine months ended September 30, 2023, one of the Company's cosmetic ingredient distributors, and three of its pharmaceutical distributors, together accounted for 80% of the Company's sales and 83% of its outstanding accounts receivable at September 30, 2023. During the nine months ended September 30, 2022, the same cosmetic ingredient distributor and three pharmaceutical distributors together were responsible for 78% of the Company's sales and 86% of its outstanding accounts receivable at September 30, 2022.

Supplier concentration – For the nine months ended September 30, 2023, approximately 74% of the Company's purchases were derived from two suppliers. For the nine months ended September 30, 2022, approximately 70% of the Company's purchases were derived from the same two suppliers.

For the three months ended September 30, 2023, approximately 62% of the Company's purchases were derived from two suppliers. For the three months ended September 30, 2022, approximately 80% of the Company's purchases were derived from the same two suppliers.

16. 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 \$0.14 and \$0.07 for the three months ended September 30, 2023 and 2022, respectively, and \$0.40 and \$0.41 for the nine months ended September 30, 2023 and 2022, respectively.

17. Subsequent Events

On October 10, 2023, the Company informed Ashland Specialty Ingredients (“ASI”), its largest cosmetic ingredients distributor, that it would like to renegotiate the current exclusive distribution agreement and in doing so provided Ashland with formal notification that it would not be renewing the existing distribution agreement in its current form. The agreement between the Company and ASI automatically renews every two years and is set to renew on January 1, 2024, unless notice of termination is given by either party no later than October 31, 2023. The Company has expressed that it has no intention of severing the relationship with ASI and that the purpose of the notification letter was to ensure that both parties have time to review the business agreement and determine what changes, if any, could be made to address the continued decline in sales of the Company’s products by ASI in certain regions.

On October 19, 2023, the Company informed the U.S. Food and Drug Administration (the “FDA”) of a potential supply shortage of Renacidin. The Company was informed by Amsino Healthcare (USA), Inc. (“Amsino”) that they were temporarily ceasing the manufacture and supply of Renacidin as its facility underwent required maintenance and addressed several observations made by the FDA. Amsino currently anticipates that two outstanding purchase orders originally scheduled for December 5, 2023 and January 9, 2024 will now take place on or about February 2, 2024 and February 9, 2024 respectively. The Company has determined that it will likely exceed its current supply levels of Renacidin prior to the delivery dates provided by Amsino. In connection with the Company’s mandatory notice to the FDA regarding the shortage of Renacidin, the Company is taking every measure reasonably available to mitigate the impact caused by these delays.

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; changes in our distribution partners; 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, manufactures and markets cosmetic ingredients, pharmaceuticals, and medical lubricants. Prior to July 1, 2023, the Company manufactured and reported sales from an industrial line of products; however, this product line was discontinued after the second quarter of 2023 due to low sales volume with no growth. The Company conducts various research and development activities. The Company's research and development department modifies, refines, and expands the uses for existing products, with the goal of further developing the markets that its products are used in. The Company also develops new products with a focus on using natural and environmentally friendly raw materials, which is a priority for many of the Company's cosmetic customers. All the products that the Company markets, except for Renacidin, are produced at its facility in Hauppauge, New York. Renacidin, a urological product, is manufactured for the Company by an outside contract manufacturer.

One of the Company's most important product lines is its Lubrajel line of multifunctional water-based gel formulations, which are designed to provide sensory enhancement, lubrication, hydration, and texture to both personal care and medical products.

The Company's cosmetic ingredients are marketed worldwide for cosmetic uses by five distributors, each handling a different geographic area, with the largest being U.S.-based ASI. In the last few years, to meet the growing demand for "green" and sustainable products, the Company has focused on developing and launching new products which only contain ingredients that are considered "natural". The Lubrajel products in the new natural line have been certified by the Cosmetic Organic and Natural Standard ("COSMOS"). This standard is recognized globally by the cosmetic industry.

Renacidin and the Company's other pharmaceutical product, Clorpactin[®] WCS-90, are distributed through full-line drug wholesalers and are currently marketed only in the United States. Those wholesalers in turn sell the products to pharmacies, hospitals, nursing homes, other long-term care facilities, and government agencies, primarily the VA. The Company promotes Renacidin through a dedicated website. Clorpactin WCS-90, as well as the Company's other products, are marketed through information provided on the Company's corporate website.

The Company's medical lubricants, which consist of water-based gel formulations designed to provide sensory enhancement and lubrication mainly for medical device applications. Products are sold directly to medical devices customers and contract manufacturers.

The Company does have competition in the marketplace for some of its products, particularly its cosmetic ingredients, as well as some of its pharmaceutical products and its medical lubricants. These competitive products are usually sold at a lower price than the Company's products; however, they may not compare favorably to the level of performance and quality of 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.

In recent years, the Company has elected to rely on trade secret protection to protect its intellectual property for proprietary product formulations and manufacturing methods. The Company will file for patent protection in situations where the Company believes that relying on trade secret protection alone would not provide sufficient protection. The Company owns the Lubrajel[®], Renacidin[®], and Clorpactin[®] trademarks.

The current Supply chain instability has not significantly affected the ability of the Company to obtain raw materials, but it has created longer lead times for some of them. While raw material prices have stabilized, the increases in raw material prices that the Company experienced during 2022 and early 2023, have negatively impacted the Company's gross profit margins in the first half of 2023. As a result, the Company instituted price increases on many of its products to offset these increased raw material costs.

While inflation has lessened during 2023, any future increases in the inflation rate will likely increase raw material, shipping, and internal labor costs, which could negatively impact the Company's future gross margins.

As a result of the residual effects of the coronavirus pandemic, including continued global supply chain instability and inflation, there continues to be uncertainty regarding the future impact of the coronavirus pandemic on the Company's operations and financial results. The Company is unable to provide an accurate estimate or projection as to what the future impact will be on the Company's operations and its financial performance going forward.

CRITICAL ACCOUNTING POLICIES

As disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2022, 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, 2022, 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, 2022, and a comparison of the results of operations for the third quarter of 2023 and 2022 and the first nine months of 2023 and 2022. 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, 2022. 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 and medical lubricants 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.

In accordance with ASU-2016-13, the Company recognizes an allowance for credit losses for financial assets carried at amortized cost to present the net amount expected to be collected as of the balance sheet date. Such allowance is based on the credit losses expected to arise over the life of the asset.

RESULTS OF OPERATIONS

Net Sales

Net sales for the third quarter of 2023 increased by \$640,496 (26%) when compared with the same period in 2022. Net sales for the first nine months of 2023 decreased by \$1,657,416 (17%) as compared with the corresponding period in 2022. The increase in sales for the third quarter of 2023 and the decrease in sales for the first nine months of 2023 were attributable to changes in sales of the following product lines:

Cosmetic ingredients:

- a) **Third quarter sales:** For the third quarter of 2023, the Company's sales of cosmetic ingredients increased by \$355,917 (42%) when compared with the third quarter of 2022. The increase in third quarter sales was due primarily to an increase of \$231,543 (31%) in net sales of the Company's cosmetic products to ASI. Based on information provided to the Company by ASI, the majority of the increase in sales of the Company's products were to customers in Europe and to a lesser extent customers in Latin America.

Third quarter sales in 2023 to the Company's four other distributors, as well as to two direct cosmetic ingredient customers, increased by a net of \$124,374 (130%) compared with the third quarter of 2022. Sales to the Company's cosmetic distributors in the United Kingdom, Switzerland, France, and two other direct customers increased by a total of \$150,604 (241%), while sales to the Company's distributor in Italy decreased by \$26,230 (80%).

- b) Nine-month sales:** For the first nine months of 2023, the Company's sales of cosmetic ingredients decreased by \$1,581,173 (37%) when compared with the same period in 2022. This decrease was due primarily to a decrease of \$1,332,936 (39%) in sales to ASI. Based on information provided to the Company by ASI, the decrease in sales to ASI during the first nine months of 2023 was due to 1) decreased demand for the Company's cosmetic products in China due to slow post-COVID economic growth; 2) increased competition from lower-priced competitors, especially Asian producers; and 3) customers working off excess stock, maintaining lower inventory levels, and changing ordering patterns to just in time.

Cosmetic ingredient sales for the first nine months of the year to the Company's four other cosmetic distributors, as well as to two direct cosmetic customers, decreased by a net of \$248,237 (27%) compared with the same period in 2022. Nine-month sales to the Company's cosmetic distributors in the UK and Italy decreased by \$317,668 (55%), while sales to the Company's distributors in France and Switzerland and two other direct customers increased by \$69,431 (12%).

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, 2023 increased by \$72,190 (5%) compared with the corresponding period in 2022, while gross sales for the nine-month period ended September 30, 2023 increased by \$252,200 (6%). The increase in sales for the three-month period ended September 30, 2023 was due primarily to an increase of \$38,851 (3%) in gross sales of Renacidin and an increase of \$33,340 (18%) in gross sales of the Company's other pharmaceutical product, Clorpectin WCS-90. For the nine-month period ended September 30, 2023, the increase was due to an increase in gross sales of Renacidin of \$222,341 (6%) combined with an increase in gross sales of Clorpectin WCS-90, in the amount of \$29,858 (5%). The Company typically experiences fluctuations in sales of its pharmaceutical products due to the timing of orders from its distributors. The Company will be investing additional resources to better understand the market for its pharmaceutical products.

The difference between the net sales increase compared with the gross sales increase for these products is due to a net increase in gross sales of those products combined with an increase in pharmaceutical sales allowances of \$35,164 (12%) for the three-month period ended September 30, 2023, and a decrease in pharmaceutical sales allowances of \$52,055 (8%) for the nine-month period ended September 30, 2023. These allowances typically have a direct relationship with the sales of the Company's pharmaceutical products, however, for the nine-month period ended September 30, 2023, the decrease in sales allowances was primarily due to a decrease in outdated material returns allowances.

Medical lubricants:

Sales of the Company's medical lubricants increased by \$279,399 (73%) for the three-month period ended September 30, 2023, compared with the same period in 2022, while sales for the nine-month period decreased by \$337,061 (18%), compared with the same period in 2022. The increase in medical lubricant sales for the three-month period was primarily attributable to an increase in shipments to one of the Company's larger direct medical lubricant customers located in India, combined with an increase in shipments to an existing customer in China whose orders have increased due to a new project utilizing one of the Company's medical lubricants. The decrease in sales for the nine-month period was due to one of the Company's other larger customers in China shifting order patterns due to slower destocking of product while China's Zero-COVID mandate was in place.

Industrial and other products:

Sales of the Company's industrial products, as well as other miscellaneous products, decreased by \$31,846 (100%) and by \$43,436 (46%), respectively, for the three and nine months ended September 30, 2023, when compared with the corresponding periods in 2022. The decrease in sales for both periods was primarily due to the Company's phase out of its industrial product line due to low sales volume with no growth. The second quarter of 2023 was the last period for which the Company reported sales of this product line.

Cost of Sales

Cost of sales as a percentage of sales increased to 57% in the third quarter of 2023, up from 45% in the third quarter of 2022. For the first nine months of 2023, cost of sales as a percentage of sales increased to 52%, up from 45% in 2022. The increases in both periods were a result of 1) increased raw material costs in 2023 compared with 2022; 2) increased freight costs in 2023 compared with 2022; 3) the increase in the percentage of the Company's overall sales derived from the Company's pharmaceutical products, which are sold at a lower profit margin than the Company's other product lines; and 4) higher per unit overhead costs due to reduced production caused by lower demand for some of the Company's products.

Operating Expenses

Operating expenses, consisting of selling and general and administrative expenses, decreased by \$43,869 (8%) for the third quarter of 2023 compared with the equivalent period in 2022 and decreased by \$118,808 (7%) for the first nine months of 2023, compared with the equivalent period in 2022. The decrease in operating expenses for both periods was due primarily to decreases in employee bonuses and depreciation expenses.

Research and Development Expenses

Research and development expenses decreased by \$22,783 (19%) for the third quarter of 2023, and decreased by \$11,027 (3%) for the first nine months of 2023 compared with the same periods in 2022. The decrease for the third quarter was primarily due to a decrease in payroll and payroll-related expenses.

Investment Income

Investment income increased by \$32,687 (70%) and by \$35,859 (24%), respectively, for the three- and nine-month periods ending September 30, 2023, compared with the equivalent periods in 2022. During the first half of 2023, the Company repositioned its marketable securities portfolio and sold most of its equity and fixed income mutual funds. The proceeds from these sales were used to purchase U.S. Treasury Bills and certificates of deposit in order to take advantage of the increase in interest rates. The increase in investment income for the three- and nine-month periods during 2023 represents increased interest income in 2023 when compared with the dividend income recorded during 2022 from the Company's mutual funds.

Net (Loss) Gain on Marketable Securities

For the three-month period ended September 30, 2023, the Company recorded net losses on its marketable securities portfolio in the amount of \$14,357. For the nine-month period ended September 30, 2023, the Company recorded net gains on its marketable securities portfolio of \$65,823. For the corresponding periods in 2022, the Company recorded net losses of \$300,526 and \$1,154,464, respectively. The reason for the fluctuations in both periods in 2023 was due to the following factors: 1) during 2022, the Company's fixed income mutual funds (which made up approximately 90% of the investment portfolio) lost a significant amount of value due to increases in interest rates, and those unrealized losses were recorded during 2022; and 2) a majority of those mutual funds were sold during the second quarter of 2023, and while most of the losses had already been recorded in 2022, there were some increases in market value at the time of these sales, which created unrealized gains in that period.

As previously discussed, the Company repositioned its marketable securities portfolio in the first half of 2023 to take advantage of the increase in interest rates. The Company's management and the Investment Committee of the Board of Directors continue 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 performance due to volatility of the global financial markets.

Provision for Income Taxes

The Company's effective income tax rate was approximately 21% for the first nine months of 2023 and 2022. The Company's tax rate is expected to remain at 21% for the current fiscal year.

LIQUIDITY AND CAPITAL RESOURCES

Working capital increased from \$8,596,939 at December 31, 2022 to \$10,142,001 at September 30, 2023, an increase of \$1,545,062. The current ratio increased from 7.3 to 1 at December 31, 2022 to 7.9 to 1 at September 30, 2023. The increase in working capital and the current ratio was primarily due to increases in cash and cash equivalents, accounts receivable and prepaid income taxes.

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 connection with an upgrade to its building sprinkler system. This project is currently in process and the Company will be making progress payments throughout the remainder of 2023.

The Company generated cash from operations of \$2,016,910 and \$1,900,456 for the nine months ended September 30, 2023 and September 30, 2022, respectively. The increase in cash from operations was primarily due to a decrease in inventory and an increase in accounts payable, which was partially offset by an increase in accounts receivable.

Cash provided by investing activities for the nine-month period ended September 30, 2023 was \$4,728,156. Cash used in investing activities for the nine-months ended September 30, 2022 was \$235,751. The increase was due to an increase in the sales of the Company's marketable securities in the first half of 2023 compared with 2022. The proceeds from these sales were primarily reinvested in short-term U.S. Treasury Bills, which are included in cash and cash equivalents.

Cash used in financing activities was \$459,387 and \$1,699,392 for the nine months ended September 30, 2023 and September 30, 2022, respectively. The decrease was due to a decrease in the dividends paid from \$0.37 per share in 2022 to \$0.10 per share in 2023.

The Company expects to continue to use its cash to make dividend payments, to purchase marketable securities, and to take advantage of growth opportunities 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

NONE

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 Donna Vigilante, 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, 2023

UNITED-GUARDIAN, INC.
(Registrant)

By: /S/ DONNA VIGILANTE
Donna Vigilante
President

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