

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, 2015

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)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

- Large accelerated filer
- Non-accelerated filer  (Do not check if a smaller reporting company)
- Accelerated filer
- Smaller reporting company

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:

4,596,439 shares of common stock, par value \$.10 per share  
(as of November 1, 2015)

**UNITED-GUARDIAN, INC.**  
**INDEX TO FINANCIAL STATEMENTS**

Page No.

**Part I. FINANCIAL INFORMATION**

Item 1 - Condensed Financial Statements:

Statements of Income - Three and Nine Months ended September 30, 2015 and 2014	2
Statements of Comprehensive Income - Three and Nine Months ended September 30, 2015 and 2014	3
Balance Sheets – September 30, 2015 and December 31, 2014	4-5
Statements of Cash Flows – Nine months ended September 30, 2015 and 2014	6
Notes to Condensed Financial Statements	7-12
Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations	12-18
Item 3 - Quantitative and Qualitative Disclosures About Market Risk	17
Item 4 - Controls and Procedures	18

**Part II. OTHER INFORMATION**

Item 1 - Legal Proceedings	18
Item 1A - Risk Factors	18
Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds	18
Item 3 - Defaults Upon Senior Securities	19
Item 4 - Mine Safety Disclosures	19
Item 5 - Other Information	19
Item 6 - Exhibits	19

<b>Signatures</b>	19
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## Part I. FINANCIAL INFORMATION

### ITEM 1. Condensed Financial Statements

UNITED-GUARDIAN, INC.  
**STATEMENTS OF INCOME**  
(UNAUDITED)

	<b>THREE MONTHS ENDED SEPTEMBER 30,</b>		<b>NINE MONTHS ENDED SEPTEMBER 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Net sales	\$ <u>3,620,365</u>	\$ <u>2,516,620</u>	\$ <u>12,116,849</u>	\$ <u>9,456,248</u>
Costs and expenses:				
Cost of sales	1,330,842	1,301,172	4,413,986	3,838,344
Operating expenses	372,619	376,785	1,316,537	1,341,045
Research and development	<u>223,100</u>	<u>294,815</u>	<u>506,949</u>	<u>570,139</u>
<b>Total costs and expenses</b>	<u>1,926,561</u>	<u>1,972,772</u>	<u>6,237,472</u>	<u>5,749,528</u>
<b>Income from operations</b>	<u>1,693,804</u>	<u>543,848</u>	<u>5,879,377</u>	<u>3,706,720</u>
Other income:				
Investment income	74,133	51,078	200,481	138,830
Income from damage settlement	<u>---</u>	<u>---</u>	<u>---</u>	<u>24,402</u>
<b>Total other income</b>	<u>74,133</u>	<u>51,078</u>	<u>200,481</u>	<u>163,232</u>
<b>Income before income taxes</b>	1,767,937	594,926	6,079,858	3,869,952
Provision for income taxes	<u>550,400</u>	<u>183,500</u>	<u>1,891,300</u>	<u>1,221,500</u>
<b>Net Income</b>	\$ <u>1,217,537</u>	\$ <u>411,426</u>	\$ <u>4,188,558</u>	\$ <u>2,648,452</u>
<b>Earnings per common share (Basic and Diluted)</b>	\$ <u>0.26</u>	\$ <u>0.09</u>	\$ <u>0.91</u>	\$ <u>0.58</u>
Weighted average shares – basic and diluted	<u>4,596,439</u>	<u>4,596,439</u>	<u>4,596,439</u>	<u>4,596,439</u>

See Notes to Condensed Financial Statements

UNITED-GUARDIAN, INC.

**STATEMENTS OF COMPREHENSIVE INCOME**  
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Net income	\$ <u>1,217,537</u>	\$ <u>411,426</u>	\$ <u>4,188,558</u>	\$ <u>2,648,452</u>
Other comprehensive income:				
Unrealized (loss) gain on marketable securities	(171,267)	(72,936)	(214,755)	158,928
Income tax benefit (expense) related to other comprehensive (loss) income	<u>58,231</u>	<u>25,309</u>	<u>73,017</u>	<u>(55,229)</u>
Other comprehensive (loss) income, net of tax	<u>(113,036)</u>	<u>(47,627)</u>	<u>(141,738)</u>	<u>103,699</u>
Comprehensive income	\$ <u>1,104,501</u>	\$ <u>363,799</u>	\$ <u>4,046,820</u>	\$ <u>2,752,151</u>

See Notes to Condensed Financial Statements

UNITED-GUARDIAN, INC.

**BALANCE SHEETS**

<b><u>ASSETS</u></b>	<b>SEPTEMBER 30, <u>2015</u> (UNAUDITED)</b>	<b>DECEMBER 31, <u>2014</u> (AUDITED)</b>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 1,220,370	\$ 2,023,383
Marketable securities	11,757,100	9,389,501
Accounts receivable, net of allowance for doubtful accounts of \$18,000 at September 30, 2015 and \$30,000 at December 31, 2014	2,183,543	1,593,260
Dividends receivable	120,848	---
Inventories (net)	1,289,109	1,237,154
Prepaid expenses and other current assets	134,107	165,691
Prepaid income taxes	---	30,643
Deferred income taxes	<u>223,439</u>	<u>223,439</u>
<b>Total current assets</b>	<u>16,928,516</u>	<u>14,663,071</u>
<b>Property, plant and equipment:</b>		
Land	69,000	69,000
Factory equipment and fixtures	4,168,349	4,138,875
Building and improvements	<u>2,776,602</u>	<u>2,773,002</u>
Total property, plant and equipment	7,013,951	6,980,877
Less: Accumulated depreciation	<u>5,902,131</u>	<u>5,772,974</u>
<b>Total property, plant and equipment, net</b>	<u>1,111,820</u>	<u>1,207,903</u>
<b>Other assets</b>	<u>71,507</u>	<u>68,042</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>18,111,843</u></b>	<b>\$ <u>15,939,016</u></b>

See Notes to Condensed Financial Statements

UNITED-GUARDIAN, INC.

**BALANCE SHEETS**

(continued)

**LIABILITIES AND STOCKHOLDERS' EQUITY**

	<b>SEPTEMBER 30,</b> <b>2015</b> <b>(UNAUDITED)</b>	<b>DECEMBER 31,</b> <b>2014</b> <b>(AUDITED)</b>
<b>Current liabilities:</b>		
Accounts payable	\$ 537,079	\$ 141,111
Accrued expenses	784,605	833,859
Dividend payable	98,954	---
Income taxes payable	<u>29,682</u>	<u>---</u>
<b>Total current liabilities</b>	<b><u>1,450,320</u></b>	<b><u>974,970</u></b>
 <b>Deferred income taxes</b>	 <u>154,091</u>	 <u>227,108</u>
 <b>Commitments and contingencies</b>		
 <b>Stockholders' equity:</b>		
Common stock \$.10 par value, authorized, 10,000,000 shares; 4,596,439 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively.	459,644	459,644
Accumulated other comprehensive income	118,131	259,869
Retained earnings	<u>15,929,657</u>	<u>14,017,425</u>
<b>Total stockholders' equity</b>	<b><u>16,507,432</u></b>	<b><u>14,736,938</u></b>
 <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	 <b>\$ <u>18,111,843</u></b>	 <b>\$ <u>15,939,016</u></b>

See Notes to Condensed Financial Statements

UNITED-GUARDIAN, INC.

**STATEMENTS OF CASH FLOWS**  
(UNAUDITED)

	<b>NINE MONTHS ENDED SEPTEMBER 30,</b>	
	<b><u>2015</u></b>	<b><u>2014</u></b>
Cash flows from operating activities:		
Net income	\$ 4,188,558	\$ 2,648,452
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	129,157	136,521
Realized (gain) loss on sale of marketable securities	(3,714)	15,603
Provision for bad debt	(12,326)	---
(Decrease) increase in cash resulting from changes in operating assets and liabilities:		
Accounts receivable	(577,957)	626,172
Receivable from damage settlement	---	48,805
Inventories	(51,955)	(5,359)
Prepaid expenses and other current and non-current assets	28,119	(18,015)
Prepaid taxes	30,643	(226,436)
Accounts payable	395,968	(188,176)
Accrued expenses and taxes payable	<u>(19,572)</u>	<u>(133,463)</u>
<b>Net cash provided by operating activities</b>	<b><u>4,106,921</u></b>	<b><u>2,904,104</u></b>
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(33,074)	(41,602)
Proceeds from sale of marketable securities	2,024,752	2,074,729
Purchases of marketable securities	(4,603,393)	(3,127,544)
<b>Net cash used in investing activities</b>	<b><u>(2,611,715)</u></b>	<b><u>(1,094,417)</u></b>
Cash flows from financing activities:		
Dividends paid	(2,298,219)	(2,206,291)
<b>Net cash used in financing activities</b>	<b><u>(2,298,219)</u></b>	<b><u>(2,206,291)</u></b>
Net (decrease) in cash and cash equivalents	(803,013)	(396,604)
Cash and cash equivalents at beginning of period	<u>2,023,383</u>	<u>1,634,262</u>
Cash and cash equivalents at end of period	\$ <u>1,220,370</u>	\$ <u>1,237,658</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, personal and health care products, pharmaceuticals, medical products, and proprietary specialty industrial products.

### 2. Basis of Presentation

Interim financial statements of the Company are prepared in accordance with Generally Accepted Accounting Principles (“GAAP”) in the United States of America for interim financial information, pursuant to the requirements for reporting on Form 10-Q and Regulation SX. In the opinion of management, all adjustments, consisting solely of 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, 2015 are not necessarily indicative of results that ultimately may be achieved for any other interim period or for the year ending December 31, 2015. The interim unaudited 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, 2014.

### 3. Stock-Based Compensation

The Company does not have any stock-based compensation plans.

### 4. Recent Accounting Pronouncements

In August 2015, FASB issued ASU 2015-14, “Revenue from Contracts with Customers.” This amendment defers the effective date of implementation to after December 15, 2017.

In July 2015, FASB issued ASU 2015-11, “Inventory. Simplifying the Measurement of Inventory.” This amendment only applies to entities that use the first-in, first-out (FIFO) or average cost methods of valuing inventory. Entities should now measure inventory at the lower of cost and net realizable value. This amendment aligns measurement of inventory in GAAP with the International Financial Reporting Standards (IFRS). This amendment is effective for annual periods beginning after December 15, 2016 with early adoption permitted. The Company will adopt this amendment in January of 2017 and is also evaluating the potential impact on the Company’s results of operations.

In April 2015, FASB issued ASU 2015-05, “Intangibles-Goodwill and other Internal Use Software: Customer’s Accounting for Fees paid in Cloud Computing Arrangement.” This standard gives clarification as to whether or not a cloud computing arrangement includes the sale or license of software and how to properly account for it. If the arrangement includes a software license then account for the agreement as an acquisition of software licenses. If not, then account for the arrangement as a service contract. The amendment is effective for annual periods beginning after December 15, 2015 and interim periods in annual periods beginning after December 15, 2016.

Early adoption is permitted. The Company will adopt the amendment in January of 2016. This amendment is not expected to have a material impact on the Company's results of operations.

In May 2014, FASB issued ASU 2014-09, "Revenue from Contracts with Customers." This standard applies to any entity that uses the guidance of GAAP for entering into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. It requires that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to receive for the exchange of goods or services. This amendment is effective for interim and annual reporting periods beginning after December 15, 2016. The Company is still evaluating the potential impact on the Company's results of operations.

In June 2014, FASB issued ASU 2014-11, "Transfers and Servicing: Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures." This standard aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as a repurchase financing with accounting for other typical repurchase agreements. These types of transactions will now be accounted for as secured borrowings. It eliminates sales accounting for repurchase-to-maturity and supersedes guidance for accounting transactions involving transfers of financial assets with contemporaneous repurchase financing agreements that leads to off-balance accounting. This update becomes effective for interim and annual reporting periods beginning after December 15, 2014 and is not expected to have a material impact on the Company's results of operations.

In August 2014, FASB issued ASU 2014-15, "Presentation of Financial Statements-Going Concern. Disclosure of Uncertainties about Entity's Ability to Continue as a Going Concern." Currently, GAAP lacks guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern. This amendment now provides guidance by providing a definition of substantial doubt, requires evaluation by management every reporting period for going concern issues, provides principles for considering any mitigating effects implemented by management, and the disclosures required for the assessment period of one year after issuance of the financial statements. This update becomes effective for interim and annual reporting periods beginning after December 15, 2016 with early application being permitted. The update will be adopted for reporting periods starting January 2015, and is not expected to have a material impact on the Company's results of operations.

## 5. Investments

The fair values of the Company's marketable securities are determined in accordance with 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. 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 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 following available-for-sale securities, which comprise all the Company's marketable securities, are re-measured to fair value on a recurring basis and are valued using Level 1 inputs, which are quoted prices (unadjusted) for identical assets in active markets:

<u>September 30, 2015 (Unaudited)</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain/(Loss)</u>
Available for Sale:			
Fixed income mutual funds	\$ 10,942,698	\$ 10,990,760	\$ 48,062
Equity and other mutual funds	<u>635,416</u>	<u>766,340</u>	<u>130,924</u>
	\$ <u>11,578,114</u>	\$ <u>11,757,100</u>	\$ <u>178,986</u>
 <u>December 31, 2014 (Audited)</u>			
Available for Sale:			
Fixed income mutual funds	\$ 8,373,674	\$ 8,575,285	\$ 201,611
Equity and other mutual funds	<u>622,086</u>	<u>814,216</u>	<u>192,130</u>
	\$ <u>8,995,760</u>	\$ <u>9,389,501</u>	\$ <u>393,741</u>

Proceeds from the sale and redemption of marketable securities amounted to \$2,024,752 for the nine months ended September 30, 2015, which included realized gains of \$3,714. Proceeds from the sale and redemption of marketable securities amounted to \$2,074,729 for nine months ended September 30, 2014, which included realized losses of \$15,603.

Investment income consisted principally of unrealized and realized gains and losses and dividend income from bond funds, mutual funds, and money market funds.

Marketable securities include investments in fixed income and equity mutual funds and government securities which are classified as "available-for-sale" securities and are reported at their fair values. Unrealized gains and losses on "available-for-sale" securities are reported as accumulated other comprehensive income (loss) in stockholders' equity, net of the related tax effects. Investment income is recognized when earned. Realized gains and losses on the sales of investments are determined on a specific identification basis.

## 6. Inventories

	<b>September 30, 2015</b> (UNAUDITED)	<b>December 31, 2014</b> (AUDITED)
Inventories consist of the following:		
Raw materials and work in process	\$ 485,249	\$ 395,092
Finished products	<u>803,860</u>	<u>842,062</u>
	\$ <u>1,289,109</u>	\$ <u>1,237,154</u>

Inventories are valued at the lower of cost or current market 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, 2015 and December 31, 2014 are stated net of a reserve of \$20,000 for slow-moving or obsolete inventory.

## 7. Supplemental Financial Statement Information

For purposes of the Statements of Cash Flows, the Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Cash payments for taxes were \$1,850,000 and \$1,567,089 for the nine months ended September 30, 2015 and September 30, 2014, respectively. No payments were made for interest during these periods.

The Company paid \$2,298,219 (\$0.50 per share) and \$2,206,291 (\$0.48 per share) in dividends for the nine months ended September 30, 2015 and September 30, 2014, respectively.

The Company has a number of unconverted shares of one of its previous corporate entities, Guardian Chemical Corporation ("Guardian"), that would convert to approximately 11,106 shares of United-Guardian, Inc. common stock if all of the remaining holders of those Guardian shares converted their Guardian stock to United-Guardian stock. Since the early 1990's, the Company has been paying accumulated dividends directly to those shareholders as those shares were converted, while at the same time its transfer agent was holding duplicate funds to cover those same payments (as well as future payments for Guardian shares that had not yet been converted). In September 2015 it was agreed that those duplicate funds would be returned to the Company, and the Company recorded a receivable from the transfer agent in the amount of \$120,848. Of that amount, \$21,894 was added to retained earnings to account for the amount that had been previously exchanged and paid, and the balance of \$98,954 will continue to be accounted for as a potential liability in the event that one or more of the holders of that Guardian stock can be located and request conversion of their Guardian shares, in which case the accumulated dividends will be paid to them and the liability reduced accordingly. Payment of the amount owed to the Company by its transfer agent was received in October 2015. The Company is presently researching its options in regard to the distribution of the funds it is continuing to hold, in the event the remaining holders of Guardian stock cannot be located.

## 8. Income Taxes

The Company's tax provision is based on its estimated annual effective rate. The Company continues to fully recognize its tax benefits, which are offset by a valuation allowance to the extent that it is more likely than not that the deferred tax assets will not be realized. As of September 30, 2015 and December 31, 2014, the Company did not have any unrecognized tax benefits.

The Company files consolidated Federal income tax returns in the U.S. with its inactive subsidiary, and separate income tax returns in New York State. The Company is subject to examination by the Internal Revenue Service and by the State of New York for years 2012 through 2014.

The Company's policy is to recognize interest and penalties in interest expense.

## 9. Comprehensive Income

Accumulated other comprehensive income comprises unrealized gains and losses on marketable securities net of the related tax effect.

<u>Changes in Accumulated Other Comprehensive Income</u>	<b>September 30, <u>2015</u></b>	<b>September 30, <u>2014</u></b>
Beginning balance	\$ 259,869	\$ 132,123
Unrealized (loss)/gain on marketable securities before reclassifications - net of tax	(145,452)	119,302
Realized gain/(loss) on sale of securities reclassified from accumulated other comprehensive income	<u>3,714</u>	<u>(15,603)</u>
Ending balance - net of tax	\$ <u>118,131</u>	\$ <u>235,822</u>

## 10. Income from Damage Settlement

In May 2012 the Company's supplier of RENACIDIN® IRRIGATION ("RENACIDIN") curtailed production due to manufacturing issues. As a result of that curtailment, the Company and its supplier entered into a settlement agreement whereby the supplier reimbursed the Company for its lost profits during the curtailment period. The final payment to the Company in the amount of \$24,402 was made pursuant to that settlement agreement in the first quarter of 2014.

## 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 after one year of employment. In addition, the Company has been accruing \$175,000 per year toward the payment of a discretionary 401(k) contribution that is apportioned among all employees using a "pay-to-pay" safe harbor formula in accordance with IRS regulations. In each of the three-month periods ended September 30, 2015 and 2014 the Company accrued contributions of \$43,750 to the DC Plan, and it accrued a total of \$131,250 towards the DC Plan in each of the nine-month periods ended September 30, 2015 and 2014. The Company did not make any discretionary contributions to the DC Plan in the three- and nine-month periods ended September 30, 2015 and 2014.

## 12. Related-Party Transactions

During the nine-month periods ended September 30, 2015 and September 30, 2014, the Company paid to Bonamassa, Maietta and Cartelli, LLP \$8,000 and \$6,500, respectively, for accounting and tax services. Lawrence Maietta, a partner in Bonamassa, Maietta and Cartelli, LLP, is a director of the Company.

### 13. Other Information

#### Accrued Expenses

	<b>September 30, <u>2015</u></b> (UNAUDITED)	<b>December 31, <u>2014</u></b> (AUDITED)
Bonuses	\$ 125,000	\$ 225,000
401K plan contributions	131,250	---
Distribution fees	205,107	203,483
Payroll and related expenses	139,563	127,585
Annual report	49,306	61,000
Audit fee	71,217	82,000
Sales rebates	<u>---</u>	<u>96,000</u>
Other	<u>63,162</u>	<u>38,791</u>
Total Accrued Expenses	\$ <u>784,605</u>	\$ <u>833,859</u>

## **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 our control) could cause actual results to differ materially from those set forth in the forward-looking statements. In addition to those specific risks and uncertainties set forth in the Company's reports currently on file with the SEC, some other factors that may affect the future results of operations of the Company are: the development of products that may be superior to those of the Company; changes in the quality or composition of the Company's products; lack of market acceptance of the Company's products; the Company's ability to develop new products; general economic or industry conditions; 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 actually achieved may differ materially from those anticipated as a result of such forward-looking statements, and those statements speak only as of the date they are made.

The Company does not undertake, and specifically disclaims, any obligation to update any forward-looking statements to reflect events or circumstances occurring after the date of such statements.

## OVERVIEW

The Company is a Delaware corporation that, through its Guardian Laboratories Division, conducts research, product development, manufacturing and marketing of cosmetic ingredients, personal and health care products, pharmaceuticals, medical products, and proprietary specialty industrial products. All of the products that the Company manufactures, with the exception of RENACIDIN, are produced at its facility in Hauppauge, New York, and are marketed through marketing partners, distributors, wholesalers, direct advertising, mailings, and trade exhibitions. Its most important product line is its LUBRAJEL<sup>®</sup> line of water-based moisturizing and lubricating gels, which are used primarily as ingredients in cosmetic products. The Company's research and development department is actively working on the development of new products to expand the Company's line of personal care products. Some of the Company's products have patent protection, and others are produced using proprietary manufacturing processes.

The Company's personal care products are marketed worldwide by five marketing partners, of which Ashland Specialty Ingredients ("ASI") purchases the largest volume of products from the Company. Approximately 65% of the Company's products are sold, either directly or through the Company's marketing partners, to end users located outside of the United States.

The Company also sells two pharmaceutical products for urological uses. Those products are sold primarily in the United States through the major drug wholesalers, which in turn sell the products to pharmacies, hospitals, nursing homes and other long-term care facilities, and to government agencies, primarily the U.S. Department of Veterans Affairs.

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

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

The Company recognizes revenue when products are shipped, title and risk of loss pass to the customers, persuasive evidence of a sales arrangement exists, and 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 intends, whenever possible, to make efforts to obtain patents in connection with its product development program. Most of the patents that the Company has been issued have expired; however, the Company does not believe that the expiration of those patents will have any material effect on its sales, since the Company's most important products rely on trade secrets and proprietary manufacturing methods rather than patent protection.

## CRITICAL ACCOUNTING POLICIES

As disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014, 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 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, 2014, 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, 2014, and a comparison of the results of operations for the three and nine months ended September 30, 2015 and September 30, 2014. 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, 2014.

## RESULTS OF OPERATIONS

### Sales

Net sales for the third quarter of 2015 increased by \$1,103,743 (43.9%) compared with the third quarter of 2014. Net sales for the first nine months of 2015 increased by \$2,660,601 (28.1%) as compared with the corresponding period in 2014. The changes in net sales for the three and nine months ended September 30, 2015 were attributable to changes in sales of the following product lines:

- (a) **Personal care products:** For the third quarter of 2015 the Company's sales of personal care products increased by \$977,480 (65.8%) when compared with the third quarter of 2014. For the nine-month period ended September 30, 2015 the Company's sales of personal care products increased by \$2,446,245 (36.9%) when compared with the nine-month period in 2014. The increases in sales for the third quarter of 2015 and the first nine months of 2015 were primarily due to increases in shipments of the Company's extensive line of personal care products to ASI, the Company's largest marketing partner. Sales to ASI increased by 91% and 43% for the three- and nine-month periods, respectively, ended September 30, 2015, compared with the corresponding periods in 2014. Based on information supplied to the Company by ASI, the Company believes that the increase in sales to ASI was attributable primarily to an increase in sales of the Company's LUBRAJEL products to customers in China, where the Company has seen increased demand during the past year. Sales of the Company's personal care products to its marketing partner in Korea also increased for the first nine months of 2015 compared with the same period in 2014, more than offsetting some decreases in sales into certain Western Europe countries.



- (b) **Pharmaceuticals:** For the third quarter of 2015 sales of the Company's pharmaceutical products increased by \$91,789 (22.0%) when compared with the third quarter of 2014. For the nine-month period ended September 30, 2015 sales of the Company's pharmaceutical products increased by \$177,275 (14.9%) when compared with the first nine months of 2014. The increase in sales for the three- and nine-month periods was primarily the result of an increase in RENACIDIN sales in both periods in 2015.

The Company is currently working with a new supplier that will be producing RENACIDIN in a new single-dose container, which the Company anticipates may increase its sales of this product in future years. The Company has submitted a supplement to its New Drug Application to the FDA, and hopes to have the new dosage form on the market in early 2016, subject to FDA approval. However, any delays in FDA approval could change that timetable. The Company is currently receiving new shipments of the current dosage form of RENACIDIN, and expects to have adequate inventory to last until the new single-dose form is approved.

- (c) **Medical (non-pharmaceutical) products:** Sales of the Company's medical products increased by \$46,023 (7.3%) for the third quarter of 2015 and by \$60,120 (3.6%) for the nine-month period ended September 30, 2015 compared with the comparable periods in 2014. The increases in medical product sales were primarily attributable to the ordering patterns of the Company's customers for these products. The Company is currently working with potential new customers for these products which, if successful, could increase the Company's medical products sales in future years.
- (d) **Industrial and other products:** Sales of the Company's industrial products, as well as other miscellaneous products, decreased by \$3,843 (10.1%) for the third quarter of 2015, and decreased by \$9,966 (7.7%) for the nine-month period ended September 30, 2015 compared with the comparable periods in 2014.

In addition to the above changes in sales, net sales allowances increased by \$7,706 and \$13,073 for the three and nine months, respectively, ended September 30, 2015, when compared with the corresponding periods in 2014. This increase was primarily due to increases in chargebacks paid to the U.S. Department of Veterans Affairs and allowances for distribution fees.

### **Cost of Sales**

For the third quarter of 2015, cost of sales as a percentage of sales decreased to 36.8%, from 51.7% in the third quarter of 2014, and to 36.4% for the nine-months ended September 30, 2015 compared with 40.6% for the comparable period in 2014. The decreases for the third quarter of 2015 as compared to third quarter of 2014 and for the first nine months of 2015 as compared with the comparable period in 2014 were primarily due to the fact that in the third quarter of 2015 the Company's fixed overhead costs were allocated over a larger number of production units compared with the same period in 2014. This was due to an increase in demand for the Company's products in 2015, which resulted in greater production. Approximately \$320,000 of primarily fixed overhead costs in 2014 were included in cost of sales as period costs instead of being absorbed as production costs. Other reasons for the decrease in cost of sales in the third quarter and the first nine months of 2015 as compared to the comparable periods in 2014 are (a) an increase in production volume necessary to meet the increases in sales during those periods, which resulted in greater production efficiency, and (b) increases in the sales of some of the Company's higher margin products.

## **Operating Expenses**

Operating expenses consist of selling, general and administrative expenses. Operating expenses decreased by \$4,166 (1.1%) for the third quarter of 2015 compared with the comparable quarter in 2014, and by \$24,508 (1.8%) for the nine months ended September 30, 2015 compared with the nine months ended September 30, 2014. The decreases for the third quarter and the first nine months of 2015 were primarily attributable to decreases in payroll related expenses. The majority of the Company's expenses are substantially fixed, and accordingly do not decrease or increase with sales.

## **Research and Development Expenses**

Research and development expenses amounted to \$506,949 and \$570,139 for the first nine months of 2015 and 2014, respectively, and \$223,100 and \$294,815 for the third quarters of 2015 and 2014, respectively. The decreases for the first nine months and third quarters of 2015 and 2014 relate to decreases in payroll and payroll-related expenses.

## **Other Income**

Other income increased by \$23,055 for the third quarter of 2015 compared with the comparable quarter of 2014, and \$37,249 for the nine months of 2015 compared with the nine months of 2014. These increases were mainly due to increases in investment income from both stock and bond mutual funds, as well as realized gains from the sales of some of the Company's mutual funds. For the nine months of 2014 there was \$24,402 of income from the RENACIDIN damage settlement. The damage settlement was completed in 2014, therefore no income from the damage settlement was received in 2015.

## **Provision for Income Taxes**

The provision for income taxes increased by \$366,900 and \$669,800 for the three and nine months, respectively, ended September 30, 2015, when compared with the comparable periods in 2014. The increase for the third quarter and the first nine months of 2015 was due primarily to an increase in income before taxes. Income before taxes increased by \$1,173,011 for the third quarter of 2015 compared with the comparable quarter of 2014, and increased by \$2,209,906 for the nine months ended September 30, 2015 as compared to the comparable period in 2014. The primary reasons for the increases are increases in net sales.

The Company's effective income tax rate remained approximately 31.0% for all periods presented, and is lower than the federal statutory rate of 34% primarily due to the additional tax deduction for domestic production activities, as well as the utilization of research and development credits.

## **LIQUIDITY AND CAPITAL RESOURCES**

Working capital increased from \$13,688,101 at December 31, 2014 to \$15,478,196 at September 30, 2015, an increase of \$1,790,095. The current ratio decreased from 15.0 to 1 at December 31, 2014 to 11.7 to 1 at September 30, 2015. The increase in working capital was primarily due to increases in receivables and marketable securities, partially offset by an increase in accounts payable. The decrease in the current ratio was primarily due to the effect of increases in marketable securities, receivables, and accounts payable.

During the nine-month periods ended September 30, 2015 and September 30, 2014 the average period of time that an account receivable was outstanding was approximately 43 days.

The Company believes that its working capital is, and will continue to be, sufficient to support its operating requirements for at least the next twelve months. The Company does not expect to incur any significant capital expenditures for the remainder of 2015.

The Company generated cash from operations of \$4,106,921 and \$2,904,104 for the nine months ended September 30, 2015 and September 30, 2014, respectively. The increase was primarily due to increases in net income.

Cash used in investing activities for the nine-month period ended September 30, 2015 and September 30, 2014 was \$2,611,715, and \$1,094,417, respectively. This increase was primarily due to an increase in cash used for the purchase of marketable securities in the nine months ended September 30, 2015 compared with the nine months ended September 30, 2014.

Cash used in financing activities was \$2,298,219 and \$2,206,291 for the nine months ended September 30, 2015 and September 30, 2014, respectively. This increase was due to an increase in the dividend paid, from \$0.48 per share in 2014 to \$0.50 per share in 2015.

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 are in the best interest of the Company and its shareholders, should they arise.

## **RECENT ACCOUNTING PRONOUNCEMENTS**

See Note 4 to the Financial Statements for a description of recent accounting pronouncements, including the expected dates of adoption and the anticipated impact on the financial statements.

## **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**

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

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

NONE

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

NONE

**ITEM 4. MINE SAFETY DISCLOSURES**

NONE

**ITEM 5. OTHER INFORMATION**

NONE

**ITEM 6. EXHIBITS**

- 31.1 Certification of Kenneth H. Globus, President and Principal Executive Officer of the Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Robert S. Rubinger, Chief Financial Officer of the Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certifications of the Principal Executive Officer and Chief Financial Officer of the Company, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**SIGNATURES**

In accordance with the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNITED-GUARDIAN, INC.  
(Registrant)

By: /S/ KENNETH H. GLOBUS  
Kenneth H. Globus  
President

By: /S/ ROBERT S. RUBINGER  
Robert S. Rubinger  
Chief Financial Officer

Date: November 6, 2015