

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, 2012

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	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)
Accelerated filer	<input type="checkbox"/>
Smaller reporting company	<input checked="" type="checkbox"/>

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, 2012)

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Part I. FINANCIAL INFORMATION

ITEM 1. Condensed Financial Statements

UNITED-GUARDIAN, INC.

STATEMENTS OF INCOME

(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2012	2011	2012	2011
Net sales	\$ <u>3,527,387</u>	\$ <u>3,345,035</u>	\$ <u>11,151,179</u>	\$ <u>11,047,383</u>
Costs and expenses:				
Cost of sales	1,334,491	1,229,561	4,339,450	4,318,444
Operating expenses	<u>598,100</u>	<u>537,248</u>	<u>1,749,217</u>	<u>1,759,177</u>
Total costs and expenses	<u>1,932,591</u>	<u>1,766,809</u>	<u>6,088,667</u>	<u>6,077,621</u>
Income from operations	1,594,796	1,578,226	5,062,512	4,969,762
Other income:				
Investment income	51,065	61,308	162,413	205,211
Gain on sale of assets	---	12,267	2,750	18,251
Income from damage settlement	---	<u>385,182</u>	---	<u>385,182</u>
Total other income	<u>51,065</u>	<u>458,757</u>	<u>165,163</u>	<u>608,644</u>
Income before income taxes	1,645,861	2,036,983	5,227,675	5,578,406
Provision for income taxes	<u>529,700</u>	<u>667,700</u>	<u>1,689,800</u>	<u>1,818,300</u>
Net Income	\$ <u>1,116,161</u>	\$ <u>1,369,283</u>	\$ <u>3,537,875</u>	\$ <u>3,760,106</u>
Earnings per common share (Basic and Diluted)	\$ <u>0.24</u>	\$ <u>0.30</u>	\$ <u>0.77</u>	\$ <u>0.82</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>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Net income	\$ <u>1,116,161</u>	\$ <u>1,369,283</u>	\$ <u>3,537,875</u>	\$ <u>3,760,106</u>
Other comprehensive income:				
Unrealized gain (loss) on marketable securities	150,846	(48,671)	315,379	21,576
Income tax (expense) benefit related to other comprehensive income	<u>(52,429)</u>	<u>16,869</u>	<u>(109,457)</u>	<u>(7,478)</u>
Other comprehensive income, net of tax	<u>98,417</u>	<u>(31,802)</u>	<u>205,922</u>	<u>14,098</u>
Comprehensive income	\$ <u>1,214,578</u>	\$ <u>1,337,481</u>	\$ <u>3,743,797</u>	\$ <u>3,774,204</u>

See notes to condensed financial statements

UNITED-GUARDIAN, INC.
BALANCE SHEETS

<u>ASSETS</u>	SEPTEMBER 30, <u>2012</u> (UNAUDITED)	DECEMBER 31, <u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 1,695,602	\$ 1,090,974
Marketable securities	11,185,589	9,295,755
Accounts receivable, net of allowance for doubtful accounts of \$18,000 at September 30, 2012 and December 31, 2011	1,482,541	1,653,440
Inventories (net)	1,124,250	1,467,434
Prepaid expenses and other current assets	103,639	163,034
Prepaid income taxes	---	78,613
Deferred income taxes	<u>223,546</u>	<u>223,546</u>
Total current assets	<u>15,815,167</u>	<u>13,972,796</u>
Property, plant and equipment:		
Land	69,000	69,000
Factory equipment and fixtures	3,786,037	3,694,379
Building and improvements	2,725,993	2,714,780
Waste disposal plant	<u>133,532</u>	<u>133,532</u>
Total property, plant and equipment	6,714,562	6,611,691
Less: Accumulated depreciation	<u>5,500,746</u>	<u>5,366,204</u>
Total property, plant and equipment, net	<u>1,213,816</u>	<u>1,245,487</u>
Other assets	<u>9,418</u>	<u>37,672</u>
TOTAL ASSETS	\$ <u>17,038,401</u>	\$ <u>15,255,955</u>

See Notes to Condensed Financial Statements

UNITED-GUARDIAN, INC.

BALANCE SHEETS

(continued)

LIABILITIES AND STOCKHOLDERS' EQUITY

	SEPTEMBER 30, 2012 (UNAUDITED)	DECEMBER 31, 2011
Current liabilities:		
Accounts payable	\$ 163,463	\$ 400,389
Accrued expenses	686,940	676,959
Income taxes payable	<u>86,642</u>	---
Total current liabilities	<u>937,045</u>	<u>1,077,348</u>
Deferred income taxes	<u>174,035</u>	<u>64,578</u>
Stockholders' equity:		
Common stock \$.10 par value, authorized, 10,000,000 shares; 4,596,439 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively.	459,644	459,644
Accumulated other comprehensive income	240,534	34,612
Retained earnings	<u>15,227,143</u>	<u>13,619,773</u>
Total stockholders' equity	<u>15,927,321</u>	<u>14,114,029</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ <u>17,038,401</u>	\$ <u>15,255,955</u>

See Notes to Condensed Financial Statements

UNITED-GUARDIAN, INC.

STATEMENTS OF CASH FLOWS

(UNAUDITED)

	NINE MONTHS ENDED	
	SEPTEMBER 30,	
	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Net income	\$ 3,537,875	\$ 3,760,106
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	181,916	193,732
Realized loss on sale of marketable securities	39,214	17,849
Realized gain on sale of assets	(2,750)	(18,251)
Amortization of bond premium	---	559
Provision for bad debts		(4,237)
Increase (decrease) in cash resulting from changes in operating assets and liabilities:		
Accounts receivable	170,899	(356,137)
Inventories	343,184	(264,101)
Prepaid expenses and other current and non-current assets	59,395	198,842
Prepaid taxes	78,613	---
Accounts payable	(236,926)	59,214
Accrued expenses and taxes payable	<u>96,623</u>	<u>181,310</u>
Net cash provided by operating activities	<u>4,268,043</u>	<u>3,768,886</u>
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(121,992)	(250,297)
Proceeds from sale of assets	2,750	38,658
Proceeds from sale of marketable securities	1,716,244	1,540,000
Purchases of marketable securities	<u>(3,329,913)</u>	<u>(3,880,727)</u>
Net cash used in investing activities	<u>(1,732,911)</u>	<u>(2,552,366)</u>
Cash flows from financing activities:		
Dividends paid	(1,930,504)	(1,654,718)
Net cash used in financing activities	<u>(1,930,504)</u>	<u>(1,654,718)</u>
Net increase (decrease) in cash and cash equivalents	604,628	(438,198)
Cash and cash equivalents at beginning of period	<u>1,090,974</u>	<u>1,514,589</u>
Cash and cash equivalents at end of period	\$ <u>1,695,602</u>	\$ <u>1,076,391</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 and other personal care products, pharmaceuticals, medical and health care products and proprietary specialty industrial products.

2. Basis of Presentation

Interim financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and 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, 2012 are not necessarily indicative of results that ultimately may be achieved for any other interim period or for the year ending December 31, 2012. 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, 2011.

3. Stock-Based Compensation

The Company maintains a stock-based compensation plan for its employees and directors, which is more fully described in the Company's Annual Report on Form 10-K for the year ended December 31, 2011. The Company recognizes the fair value of all share-based payments to employees, including grants of employee stock options, as a compensation expense in the financial statement.

As of September 30, 2012, the Company had no share-based awards outstanding and exercisable and did not grant any options during the nine months ended September 30, 2012.

As of September 30, 2012, there were no remaining unrecognized compensation costs related to the non-vested share-based compensation arrangements granted under the Company's plans.

The Company did not record any stock-based compensation expense during the nine-month periods ended September 30, 2012 and 2011.

The Company did not receive any proceeds from the exercise of options during the nine-month periods ended September 30, 2012 and 2011.

4. Recent Accounting Pronouncements

In June 2011, FASB issued an amendment to the disclosure requirements for the presentation of comprehensive income. The amendment requires that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This guidance is effective retrospectively for the interim

periods and annual periods beginning after December 15, 2011. The Company adopted this amendment effective January 1, 2012. The adoption of this amendment did not have a material impact on the Company's results of operation.

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, 2012</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain/(Loss)</u>
Corporate bonds			
Maturities after 1 year through 5 years	\$ <u>203,920</u>	\$ <u>204,296</u>	\$ <u>376</u>
Fixed income mutual funds	<u>10,340,383</u>	<u>10,682,773</u>	<u>342,390</u>
Equity and other mutual funds	<u>272,934</u>	<u>298,520</u>	<u>25,586</u>
	\$ <u>10,817,237</u>	\$ <u>11,185,589</u>	\$ <u>368,352</u>
 <u>December 31, 2011</u>			
Available for Sale:			
U.S. Treasury and agencies			
Mature within 1 year	\$ <u>249,137</u>	\$ <u>234,388</u>	\$ <u>(14,749)</u>
Corporate bonds			
Mature within 1 year	267,251	247,719	(19,532)
Maturities after 1 year through 5 years	<u>203,920</u>	<u>195,899</u>	<u>(8,021)</u>
Total corporate bonds	<u>471,171</u>	<u>443,618</u>	<u>(27,553)</u>
Fixed income mutual funds	<u>8,268,624</u>	<u>8,372,216</u>	<u>103,592</u>
Equity and other mutual funds	<u>253,850</u>	<u>245,533</u>	<u>(8,317)</u>
	\$ <u>9,242,782</u>	\$ <u>9,295,755</u>	\$ <u>52,973</u>

Proceeds from the sale and redemption of marketable securities amounted to \$1,716,244 for the nine months ended September 30, 2012, which included realized losses of \$39,214. Proceeds from the sale and redemption of marketable securities amounted to \$1,540,000 for nine months ended September 30, 2011, which included realized losses of \$17,849.

Investment income consisted principally of interest income from bonds and money market funds and dividend income from bond funds and mutual funds.

Marketable securities include investments in equity mutual funds, government securities and corporate bonds 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 sales of investments are determined on a specific identification basis.

6. Inventories

	September 30, <u>2012</u>	December 31, <u>2011</u>
Inventories consist of the following:		
Raw materials and work in process	\$ 632,813	\$ 470,532
Finished products	<u>491,437</u>	<u>996,902</u>
	\$ <u>1,124,250</u>	\$ <u>1,467,434</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, 2012 and December 31, 2011 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 \$1,524,245 and \$1,405,000 for the nine months ended September 30, 2012 and September 30, 2011, respectively. No payments were made for interest during these periods.

The Company paid \$1,930,504 (\$0.42 per share) and \$1,654,718 (\$0.36 per share) in dividends for the nine months ended September 30, 2012 and September 30, 2011, respectively.

Research and development expenses amounted to \$536,509 and \$489,988 for the nine-month period ended September 30, 2012 and September 30, 2011, respectively, and \$246,119 and \$229,839 for the three-month period ended September 30, 2012 and September 30, 2011, respectively.

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, 2012 and December 31, 2011, 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 New York State for years 2009 through 2011.

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.

10. Defined Contribution Plan

The Company sponsors a 401(k) defined contribution plan ("DC Plan") that provides for a dollar-for-dollar employer matching contribution of the first 4% of each employee's pay contributed to the DC Plan by the employee. Employees become fully vested in employer matching contributions after one year of employment. In each of the three-month periods ended September 30, 2012 and 2011 the Company accrued contributions of \$43,750 to the DC Plan, and it had accrued a total of \$131,250 towards the DC Plan in each of the nine-month periods ended September 30, 2012 and 2011. The Company did not make any discretionary contributions to the DC Plan in the three and nine month periods ended September 30, 2012 and 2011.

11. Related-Party Transactions

For the nine months ended September 30, 2012, the Company made no payments to Henry Globus, a former officer and director of the Company who passed away in December 2011, as compared with the nine months ended September 30, 2011, in which the Company paid him \$16,722. The payments were for consulting services in accordance with his employment termination agreement of 1988.

During the nine-month periods ended September 30, 2012 and September 30, 2011, the Company paid to Bonamassa, Maietta and Cartelli, LLP \$8,000 and \$6,000, respectively, for accounting and tax services. Lawrence Maietta, a partner in Bonamassa, Maietta and Cartelli, LLP, is a director of the Company.

During the first quarter of 2011, the Company sold one of its vehicles with a book value of \$20,407 to one of its Vice Presidents for \$15,154 (the vehicle's fair market value) as part of his severance package. As a result, the Company recognized a non-cash loss of \$5,253.

During the third quarter of 2011 the President of the Company, Kenneth H. Globus, was reimbursed \$11,406 for the value of the trade in of a personal vehicle that was used to purchase a Company vehicle.

12. Other Information

Accrued Expenses

	September 30, <u>2012</u>	December 31, <u>2011</u>
Accrued bonuses	\$ 114,500	\$ 200,000
Accrued 401K plan contributions	131,250	---
Accrued distribution fees	192,147	191,171
Payroll and related expenses	128,955	80,986
Other	<u>120,088</u>	<u>204,802</u>
	\$ <u>686,940</u>	\$ <u>676,959</u>

13. Other Income

At the end of 2010 the Company experienced a temporary suspension of production of its RENACIDIN® IRRIGATION (“RENACIDIN”) product due to regulatory issues at the facility at which the product is manufactured by the Company’s supplier. Production did not resume until May 2011. As a result, the Company incurred approximately \$390,000 in damages. The Company and its supplier entered into a settlement agreement whereby the Company was reimbursed for these damages. The miscellaneous income of \$385,182 represents the amount that was paid to the Company during the third quarter of 2011 pursuant to this damage settlement.

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 conducts research, product development, manufacturing and marketing of cosmetic ingredients, personal and health care products, pharmaceuticals, and 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 personal care product line is its LUBRAJEL[®] line of water-based moisturizing and lubricating gels. It also sells two pharmaceutical products for urological uses. Those products are sold primarily 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 pharmaceutical products are distributed primarily in the United States. Its 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 one-half of the Company's personal care products are sold, either directly or through the Company's marketing partners, to end users located outside of the United States.

While the Company does have competition in the marketplace for some of its products, many of its products are either unique in their field or have some unique characteristics, and therefore are not in direct competition with the products of other pharmaceutical, specialty chemical, or health care companies. Many of the Company's products are manufactured using patented or proprietary processes. 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 and performance 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.

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.

CRITICAL ACCOUNTING POLICIES

As disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011, 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 U.S. Generally Accepted Accounting Principles (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, inventory, and income taxes.

Since December 31, 2011, 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, 2011, and a comparison of the results of operations for the three and nine months ended September 30, 2012 and September 30, 2011. 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, 2011.

RESULTS OF OPERATIONS

Sales

Net sales for the third quarter of 2012 increased \$182,352 (5.5%) compared with the comparable period in 2011. Net sales for the first nine months of 2012 increased \$103,796 (.9%) as compared with the corresponding period in 2011. The changes in net sales for the three and nine months ended September 30, 2012 were attributable to changes in sales of the following product lines:

- (a) **Pharmaceuticals:** The Company's RENACIDIN product typically accounts for approximately 85% of the Company's net sales of pharmaceutical products. Over the past 20 months, RENACIDIN experienced two disruptions in production at the Company's third-party manufacturing facility, both of which led to product shortages. The first disruption began in November 2010 and lasted until May 2011, and was caused by regulatory issues at the third-party's manufacturing facility. The issues were unrelated to the Company's product, but disrupted all production at that facility. When product became available in May 2011, there was a surge in orders, not only due to the need of the Company's distributors to restock their depleted inventories, but also because of the desire on the part of the distributors to avoid a price increase that was to go into effect on June 1, 2011. The result was unusually strong RENACIDIN sales in the second quarter of 2011.

The second disruption began in May 2012 and continues as of the date of this report, and is related to general production problems at the supplier's manufacturing site. It affects all of the products manufactured at that facility. The resulting failure to supply product to the Company significantly impacted the Company's ability to fill orders for product in the second and third quarters of 2012, and is expected to impact the Company's fourth quarter as well. The Company's inventory of product was completely depleted by August 1, 2012.

As a result of the second disruption in 2012, the Company had very limited inventory of RENACIDIN in the third quarter of 2012 and ran out completely by the end of July, leaving two months of the third quarter with no RENACIDIN sales. As a result, RENACIDIN sales in the third quarter of 2012 decreased by \$212,818 (79.7%) compared with the comparable quarter in 2011, and overall pharmaceutical sales decreased by \$232,300 (56.8%) in the third quarter of 2012 compared with the third quarter of 2011.

For the nine-month period ended September 30, 2012, RENACIDIN sales decreased by \$278,267 (21.0%) compared with the comparable period in 2011, and overall pharmaceutical sales decreased by \$309,123 (18.1%) for the nine-month period ended September 30, 2012 compared with the comparable period in 2011.

As of the date of this report the Company's inventory of RENACIDIN has been depleted. The Company will not be able to fill any further orders for RENACIDIN until production is resumed. The Company has been informed by its supplier that it does not currently know when that will happen, since there are numerous production and regulatory issues that still need to be resolved before production can resume. However, the supplier has indicated it does not expect to be able to ship additional product to the Company until May 2013 at the earliest. The supplier has been holding three batches of product that were manufactured in May 2012, but it is unlikely that those lots will be released due to concerns over multiple quality problems that may have resulted from the production issues. The failure of the supplier to deliver additional inventory will continue to significantly impact the Company's pharmaceutical sales. The Company has notified the supplier that it considers it in breach of its supply agreement, and will seek compensation for all losses incurred as a result of that breach. Discussions to resolve the issue of damages have already begun.

The Company has also been notified by its supplier that it will no longer supply product to the Company after the January 2014 contract termination date. The Company has been actively looking for a new supplier, and is currently working with a company interested in, and capable of, producing the product. The Company is hopeful that it will have the new manufacturer in place prior to the January 2014 contract termination date, but plans, if possible, to bring in additional inventory in the event the new supplier is not approved by that date.

- (b) **Personal care products:** For the third quarter of 2012 the Company's sales of personal care products increased by \$262,682 (12.1%) when compared with the third quarter of 2011, and for the nine-month period ended September 30, 2012 the Company's sales of personal care products increased by \$323,103 (4.5%) when compared with the comparable period in 2011. The increase in sales in the third quarter of 2012 and the nine months of 2012, was primarily the result of sales to ASI, the Company's largest marketing partner. Sales to ASI increased by \$236,394 (14.3%) and increased by \$312,859 (5.4%) for the three and nine months periods, respectively, ended September 30, 2012, compared with the corresponding periods in 2011. The Company believes that the increase in sales for the third quarter was primarily attributable to the timing of orders, and the increase in personal product sales for the nine-month period represents a sales volume increase to ASI's customers.
- (c) **Medical (non-pharmaceutical) products:** Sales of the Company's medical products increased by \$112,508 (14.2%) for the third quarter of 2012, and increased by \$46,842 (2.1%) for the nine-month period ended September 30, 2012 compared with the comparable periods in 2011. These changes were primarily attributable to the ordering patterns of the Company's customers for these products, and may not reflect an increase in sales of these products on an annualized basis.
- (d) **Industrial and other products:** Sales of the Company's industrial products, as well as other miscellaneous products, increased by \$5,428 (15.2%) and \$36,095 (38.1%) for the three and nine months, respectively, ended September 30, 2012, when compared with the corresponding periods ended September 30, 2011.

In addition to the above changes in sales, net sales allowances decreased by \$34,033 and \$6,878 for the three and nine months, respectively, ended September 30, 2012, when compared with the corresponding periods in 2011. The decreases were primarily due to decreases in

chargebacks paid to the U.S. Department of Veterans Affairs, pharmaceutical sales rebates to state Medicaid agencies, and distribution fees.

Cost of Sales

For the third quarter of 2012, cost of sales as a percentage of sales increased to 37.8% from 36.8% in the third quarter of 2011. Cost of sales as a percentage of sales decreased to 38.9% for the nine-months ended September 30, 2012, down from 39.1% for the comparable period in 2011. The increase in cost of sales for the third quarter of 2012 was primarily due to increases in payroll and rebate program costs. The decrease for the nine months was due to decreases in utility and insurance costs, as well as a change in the mix of products sold, with sales of lower margin products replaced by sales of higher margin products.

Operating Expenses

Operating expenses consist of selling, general and administrative expenses. Operating expenses increased by \$60,852 (11.3%) for the third quarter of 2012 compared with the comparable quarter in 2011, and decreased by \$9,960 (.6%) for the nine months ended September 30, 2012 compared with the nine-months ended September 30, 2011. The increase in operating expenses for the third quarter of 2012 was mainly due to increases in payroll and payroll related expenses and health insurance. The decrease for the nine months of 2012 was primarily attributable to decreases in professional, consulting, legal and accounting fees.

Other Income

In the third quarter of 2011 the Company received income of \$385,182 from the partial settlement of a claim for damages between the Company and one of its suppliers. The Company also experienced a decline in investment income in 2012, decreasing by \$10,243 (16.7%) and \$42,798 (20.9%) for the three and nine months periods, respectively, when compared with the comparable periods in 2011. These decreases were mainly attributable to realized losses on bonds sold. For the nine months ended September 30, 2012 there was a net decrease in income of \$15,501 resulting from the sale of assets, declining from \$18,251 in the first nine months of 2011 to \$2,750 for the comparable period in 2012. For the third quarter of 2011 the Company experienced a gain of \$12,267 from the sale of equipment. There was no sale of equipment in the third quarter of 2012.

Provision for Income Taxes

The provision for income taxes decreased by \$138,000 (20.7%) and \$128,500 (7.1%) for the three and nine months, respectively, ended September 30, 2012, when compared with the comparable periods in 2011. The decrease for the third quarter and the nine months of 2012 was mainly due to a decrease in income before taxes.

The Company's effective income tax rate remained approximately 33.0% for all periods presented.

LIQUIDITY AND CAPITAL RESOURCES

Working capital increased by \$1,982,674 to \$14,878,122 at September 30, 2012 from \$12,895,448 at December 31, 2011. The current ratio increased to 16.88 to 1 at September 30, 2012, up from 12.97 to 1 at December 31, 2011. The increase in working capital and the current ratio were primarily due to an increase in marketable securities and a decrease in accounts payable.

During the nine-month period ended September 30, 2012 the average period of time that an account receivable was outstanding was approximately 39 days. The average period of time that an account receivable was outstanding during the nine-month period ended September 30, 2011 was 31 days. The increase for 2012 was the result of more favorable payment terms given to some international customers due to longer shipping times.

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 2012.

The Company generated cash from operations of \$4,268,043 and \$3,768,886 for the nine months ended September 30, 2012 and September 30, 2011, respectively. The increase was primarily due to decreases in account receivable and inventory.

Cash used in investing activities for the nine-month period ended September 30, 2012 and September 30, 2011 was \$1,732,911, and \$2,552,366, respectively. This decrease was primarily due to a decrease in the purchases of marketable securities in the nine months ended September 30, 2012 compared with the nine months ended September 30, 2011.

Cash used in financing activities was \$1,930,504 and \$1,654,718 for the nine months ended September 30, 2012 and September 30, 2011, respectively. This increase was mainly due to an increase in dividend paid per share, from \$0.36 per share in 2011 to \$0.42 per share in 2012.

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 8, 2012