

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, 2017

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, 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	<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"/>
Emerging growth company	<input type="checkbox"/>

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:

4,594,319 shares of common stock, par value \$.10 per share  
(as of November 1, 2017)

**UNITED-GUARDIAN, INC.**  
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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,	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Sales:				
Gross sales	\$ 3,304,489	\$ 3,567,565	\$ 10,068,868	\$ 8,114,093
Sales allowances and returns	<u>(126,697)</u>	<u>(109,932)</u>	<u>(329,937)</u>	<u>(254,719)</u>
<b>Net Sales</b>	<u>3,177,792</u>	<u>3,457,633</u>	<u>9,738,931</u>	<u>7,859,374</u>
Costs and expenses:				
Cost of sales	1,110,806	1,594,198	4,042,015	3,499,589
Operating expenses	438,257	460,401	1,320,342	1,393,286
Research and development	<u>159,531</u>	<u>158,593</u>	<u>507,535</u>	<u>494,054</u>
<b>Total costs and expenses</b>	<u>1,708,594</u>	<u>2,213,192</u>	<u>5,869,892</u>	<u>5,386,929</u>
<b>Income from operations</b>	<u>1,469,198</u>	<u>1,244,441</u>	<u>3,869,039</u>	<u>2,472,445</u>
Investment income	<u>114,250</u>	<u>64,644</u>	<u>239,918</u>	<u>190,862</u>
<b>Income before provision for income taxes</b>	1,583,448	1,309,085	4,108,957	2,663,307
Provision for income taxes	<u>493,125</u>	<u>408,950</u>	<u>1,280,050</u>	<u>832,700</u>
<b>Net Income</b>	\$ <u>1,090,323</u>	\$ <u>900,135</u>	\$ <u>2,828,907</u>	\$ <u>1,830,607</u>
<b>Earnings per common share (Basic and Diluted)</b>	\$ <u>0.24</u>	\$ <u>0.20</u>	\$ <u>0.62</u>	\$ <u>0.40</u>
Weighted average shares – basic and diluted	<u>4,594,319</u>	<u>4,594,319</u>	<u>4,594,319</u>	<u>4,594,319</u>

See Notes to Condensed Financial Statements

UNITED-GUARDIAN, INC.

**STATEMENTS OF COMPREHENSIVE INCOME**  
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Net income	\$ <u>1,090,323</u>	\$ <u>900,135</u>	\$ <u>2,828,907</u>	\$ <u>1,830,607</u>
Other comprehensive income:				
Unrealized gain on marketable securities	56,536	88,765	284,666	363,250
Income tax expense related to other comprehensive	<u>(19,221)</u>	<u>(30,180)</u>	<u>(96,786)</u>	<u>(123,505)</u>
<b>Total other comprehensive income, net of tax</b>	<u>37,315</u>	<u>58,585</u>	<u>187,880</u>	<u>239,745</u>
<b>Total comprehensive income</b>	\$ <u>1,127,638</u>	\$ <u>958,720</u>	\$ <u>3,016,787</u>	\$ <u>2,070,352</u>

See Notes to Condensed Financial Statements

UNITED-GUARDIAN, INC.

**BALANCE SHEETS**

	<b>SEPTEMBER 30,</b> <b>2017</b> <b>(UNAUDITED)</b>	<b>DECEMBER 31,</b> <b>2016</b> <b>(AUDITED)</b>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 643,479	\$ 424,301
Marketable securities	11,607,031	10,218,009
Accounts receivable, net of allowance for doubtful accounts of \$16,943 at September 30, 2017 and December 31, 2016	1,958,653	1,597,997
Inventories (net)	1,211,726	1,255,813
Prepaid expenses and other current assets	143,866	135,320
Prepaid income taxes	<u>---</u>	<u>82,732</u>
<b>Total current assets</b>	<b><u>15,564,755</u></b>	<b><u>13,714,172</u></b>
<b>Property, plant and equipment:</b>		
Land	69,000	69,000
Factory equipment and fixtures	4,351,779	4,342,629
Building and improvements	<u>2,787,503</u>	<u>2,776,602</u>
Total property, plant and equipment	7,208,282	7,188,231
Less: Accumulated depreciation	<u>6,236,579</u>	<u>6,097,640</u>
<b>Total property, plant and equipment, net</b>	<b><u>971,703</u></b>	<b><u>1,090,591</u></b>
<b>Deferred income taxes (net)</b>	<u>---</u>	<u>2,382</u>
<b>Other assets (net)</b>	<u>48,177</u>	<u>59,295</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>16,584,635</u></b>	<b>\$ <u>14,866,440</u></b>

See Notes to Condensed Financial Statements

UNITED-GUARDIAN, INC.

**BALANCE SHEETS**

(continued)

**LIABILITIES AND STOCKHOLDERS' EQUITY**

	<b>SEPTEMBER 30,</b> <b><u>2017</u></b> <b>(UNAUDITED)</b>	<b>DECEMBER 31,</b> <b><u>2016</u></b> <b>(AUDITED)</b>
<b>Current liabilities:</b>		
Accounts payable	\$ 348,281	\$ 82,821
Accrued expenses	917,619	848,328
Income taxes payable	197,318	---
Dividends payable	<u>119,350</u>	<u>114,802</u>
<b>Total current liabilities</b>	<b><u>1,582,568</u></b>	<b><u>1,045,951</u></b>
<b>Deferred income taxes (net)</b>	<u>94,405</u>	<u>---</u>
<b>Commitments and contingencies</b>		
<b>Stockholders' equity:</b>		
Common stock \$.10 par value, authorized, 10,000,000 shares; 4,594,319 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively.	459,432	459,432
Accumulated other comprehensive income	363,514	175,634
Retained earnings	<u>14,084,716</u>	<u>13,185,423</u>
<b>Total stockholders' equity</b>	<b><u>14,907,662</u></b>	<b><u>13,820,489</u></b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ <u>16,584,635</u></b>	<b>\$ <u>14,866,440</u></b>

See Notes to Condensed Financial Statements

UNITED-GUARDIAN, INC.

**STATEMENTS OF CASH FLOWS**  
(UNAUDITED)

	<b>NINE MONTHS ENDED</b>	
	<b>SEPTEMBER 30,</b>	
	<b><u>2017</u></b>	<b><u>2016</u></b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 2,828,907	\$ 1,830,607
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	150,057	134,063
Realized (gain) loss on sale of marketable securities	(54,302)	1,063
(Decrease) increase in cash resulting from changes in operating assets and liabilities:		
Accounts receivable	(360,656)	(892,593)
Inventories	44,087	22,152
Prepaid expenses and other current assets	(8,546)	12,214
Prepaid income taxes	82,732	95,767
Accounts payable	265,460	13,653
Accrued expenses	69,291	449,555
Income taxes payable	<u>197,318</u>	<u>---</u>
<b>Net cash provided by operating activities</b>	<b><u>3,214,348</u></b>	<b><u>1,666,481</u></b>
<b>Cash flows from investing activities:</b>		
Acquisition of property, plant and equipment	(20,051)	(123,943)
Proceeds from sale of marketable securities	540,472	1,437,832
Purchases of marketable securities	<u>(1,590,525)</u>	<u>(1,429,979)</u>
<b>Net cash used in investing activities</b>	<b><u>(1,070,104)</u></b>	<b><u>(116,090)</u></b>
<b>Cash flows from financing activities:</b>		
Dividends paid	<u>(1,925,066)</u>	<u>(1,603,871)</u>
<b>Net cash used in financing activities</b>	<b><u>(1,925,066)</u></b>	<b><u>(1,603,871)</u></b>
Net increase (decrease) in cash and cash equivalents	219,178	(53,480)
Cash and cash equivalents at beginning of period	<u>424,301</u>	<u>1,080,489</u>
Cash and cash equivalents at end of period	\$ <u><u>643,479</u></u>	\$ <u><u>1,027,009</u></u>
<b>Supplemental disclosure of cash flow information</b>		
Taxes paid	\$ <u><u>1,000,000</u></u>	\$ <u><u>400,300</u></u>
Dividend payable	\$ <u><u>4,952</u></u>	\$ <u><u>4,141</u></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 in the United States of America ("GAAP") for interim financial information, pursuant to the requirements for reporting on Form 10-Q and Regulation S-X. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been omitted or condensed pursuant to such regulations. 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, 2017 are not necessarily indicative of results that ultimately may be achieved for any other interim period or for the year ending December 31, 2017. 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, 2016.

### 3. Use of Estimates

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

### 4. Marketable Securities

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:

<b><u>September 30, 2017</u></b> (Unaudited)	<b><u>Cost</u></b>	<b><u>Fair Value</u></b>	<b><u>Unrealized Gain</u></b>
Available for Sale:			
Fixed income mutual funds	\$ 9,919,121	\$ 10,051,757	\$ 132,636
Equity and other mutual funds	<u>1,137,132</u>	<u>1,555,274</u>	<u>418,142</u>
Total marketable securities	\$ <u>11,056,253</u>	\$ <u>11,607,031</u>	\$ <u>550,778</u>
<b><u>December 31, 2016</u></b> (Audited)			
Available for Sale:			
Fixed income mutual funds	\$ 9,339,352	\$ 9,457,286	\$ 117,934
Equity and other mutual funds	<u>612,545</u>	<u>760,723</u>	<u>148,178</u>
Total marketable securities	\$ <u>9,951,897</u>	\$ <u>10,218,009</u>	\$ <u>266,112</u>

Proceeds from the sale and redemption of marketable securities amounted to \$540,472 for the nine months ended September 30, 2017, which included realized gains of \$54,302. Proceeds from the sale and redemption of marketable securities amounted to \$1,437,832 for the nine months ended September 30, 2016, which included realized losses of \$1,063.

Investment income consisted principally of realized gains and losses, interest income from fixed income mutual funds and dividend income from equity and other mutual funds.

Marketable securities include investments in fixed income and equity mutual funds, 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 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.

## 5. Inventories

	<b><u>September 30,</u></b> <b><u>2017</u></b> (UNAUDITED)	<b><u>December 31,</u></b> <b><u>2016</u></b> (AUDITED)
Inventories consist of the following:		
Raw materials	\$ 333,154	\$ 349,383
Work in process	44,922	24,214
Finished products	<u>833,650</u>	<u>882,216</u>
Total Inventories	\$ <u>1,211,726</u>	\$ <u>1,255,813</u>

Inventories are valued at the lower of cost or current net realizable value. Cost is determined using the average cost method, which approximates cost determined by the first-in, first-out method. Finished product inventories at September 30, 2017 and December 31, 2016 are net of a reserve of \$20,000 for slow-moving or obsolete inventory.

## 6. 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, 2017 and December 31, 2016, the Company did not have any unrecognized tax benefits.

## 7. Accumulated Other Comprehensive Income

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

<u>Changes in Accumulated Other Comprehensive Income</u>	<b>Nine Months Ended September 30, <u>2017</u> (Unaudited)</b>	<b>Year Ended December 31, <u>2016</u> (Audited)</b>
Beginning balance – net of tax	\$ 175,634	\$ 72,361
Unrealized gain on marketable securities before reclassifications - net of tax	152,041	104,284
Realized gain(loss) on sale of securities reclassified from accumulated other comprehensive income-net of tax	<u>35,839</u>	<u>(1,011)</u>
Ending balance - net of tax	\$ <u>363,514</u>	\$ <u>175,634</u>

## 8. 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 (\$43,750 per quarter) 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, 2017 and 2016 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, 2017 and 2016. The Company did not make any discretionary contributions to the DC Plan in the three- and nine-month periods ended September 30, 2017 and 2016.

## 9. Related-Party Transactions

During the nine-month periods ended September 30, 2017 and September 30, 2016, the Company paid to Bonamassa, Maietta and Cartelli, LLP \$8,000 and \$10,000 respectively, for accounting and tax services. Lawrence Maietta, a partner in Bonamassa, Maietta and Cartelli, LLP, is a director of the Company.

## 10. Other Information

### Accrued Expenses

Accrued expenses comprise the following:

	<b>September 30, <u>2017</u></b>	<b>December 31, <u>2016</u></b>
	(UNAUDITED)	(AUDITED)
Bonuses	\$ 100,000	\$ 200,000
Distribution fees	242,782	225,879
Payroll and related expenses	178,884	151,653
Reserve for outdated material	138,123	101,177
Company 401K contribution	131,250	-
Annual report	48,014	63,447
Audit fee	36,168	54,868
Insurance	12,287	9,381
Sales rebates	9,600	23,393
Other	<u>20,511</u>	<u>18,530</u>
Total Accrued Expenses	<u>\$917,619</u>	\$ <u>848,328</u>

## 11. Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, "Revenue from Contracts with Customers." This standard applies to any entity 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. In August 2015, the FASB issued ASU 2015-14, deferring the effective date of implementation to annual periods beginning after December 15, 2017. The Company is still evaluating the potential impact on the Company's financial statements.

In accordance with the Company's implementation of ASU 2015-17 "Income Taxes, Balance Sheet Classification of Deferred Taxes", deferred tax assets and liabilities have been netted and presented as one noncurrent amount. The Company has applied this standard retroactively to all periods presented, and therefore reclassification was made to net a previously reported deferred tax liability of \$252,135 at December 31, 2016 against a deferred tax asset of \$254,517 at December 31, 2016, thereby reporting a net deferred tax asset of \$2,382 at December 31, 2016. The implementation of this standard had no effect on previously reported net income.

In July 2015, the FASB issued ASU 2015-11, "Inventory. Simplifying the Measurement of Inventory." This amendment requires companies to measure inventory at the lower of cost or net realizable value. The Company adopted this amendment in the first quarter of 2017, and the implementation did not have a material impact on the Company's financial statements.

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

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

## 12. Concentrations of Credit Risk

Cash and cash equivalents - For financial statement purposes, the Company considers as cash equivalents all highly liquid investments with an original maturity of three months or less when purchased. The Company deposits cash and cash equivalents with high credit quality financial institutions and believes that any amounts in excess of insurance limitations to be at minimal risk. Cash and cash equivalents held in these accounts are currently insured by the Federal Deposit Insurance Corporation ("FDIC") up to a maximum of \$250,000. At September 30, 2017, approximately \$554,000 exceeded the FDIC limit.

Customer concentration - Accounts receivable potentially exposes the Company to concentrations of credit risk. The Company monitors the amount of credit it allows each of its customers, using the customer's prior payment history 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.

One of the Company's pharmaceutical distributors and one of its personal care products marketing partners together accounted for approximately 53% of the Company's sales and 48% of its

outstanding accounts receivable at September 30, 2017. The same distributor and marketing partner together accounted for approximately 46% of the Company's sales and 56% of its outstanding accounts receivable at September 30, 2016.

### 13. 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 amounted to \$ 0.24 and \$0.20 for the three months ended September 30, 2017 and 2016, respectively, and \$0.62 and \$0.40 for the nine months ended September 30, 2017 and 2016, respectively.

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

### **FORWARD-LOOKING STATEMENTS**

Statements made in this Form 10-Q which are not purely historical are forward-looking statements with respect to the goals, plans, objectives, intentions, expectations, financial condition, results of operations, future performance and business of the Company. Forward-looking statements may be identified by the use of such words as "believes", "may", "will", "should", "intends", "plans", "estimates", "anticipates", or other similar expressions.

Forward-looking statements involve inherent risks and uncertainties, and important factors (many of which are beyond 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<sup>®</sup>, 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 purchased and marketed worldwide primarily by six marketing partners, of which U.S.-based Ashland Specialty Ingredients ("ASI") is the largest, purchasing approximately 34% of the Company's products during the third quarter of 2017. The Company also sells small quantities of its personal care products directly to a few customers that are not handled by one of its six marketing partners.

Although a significant percentage of ASI's purchases from the Company are marketed to foreign customers, all sales to ASI are considered U.S. sales for financial reporting purposes, since all ASI orders are shipped to ASI's warehouses in the U.S. Based on sales information provided to the Company by ASI, in the third quarter of 2017, approximately 76% of ASI's sales were to customers in foreign countries. Overall, approximately 22% of the Company's products were sold to end users located outside of the United States, either directly by the Company or by the Company's other five marketing partners, during the third quarter of 2017.

The Company sells two pharmaceutical products for urological uses. Those products are sold mainly in the United States, with distribution handled primarily by 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. There are three customers for the Company's medical products that take delivery of their purchases in the U.S. but subsequently ship that product to manufacturing facilities outside the U.S. Since the Company makes those shipments to U.S. locations, sales to those customers are considered domestic sales. In the third quarter of 2017 approximately 37% of the Company's medical product sales were delivered to U.S. locations for subsequent shipment by the customers to foreign manufacturing facilities, which then produced finished products to be marketed globally.

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, 2016, 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, 2016, 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, 2016, and a comparison of the results of operations for the three and nine months ended September 30, 2017 and September 30, 2016. 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, 2016. All references in this quarterly report to "sales" or "Sales" shall mean Gross Sales.

## **RESULTS OF OPERATIONS**

### **Gross Sales**

Gross sales for the third quarter of 2017 decreased by \$263,076 (approximately 7%) compared with the third quarter of 2016. Gross sales for the first nine months of 2017 increased by \$1,954,775 (approximately 24%) as compared with the corresponding period in 2016. The changes in sales for the three and nine months ended September 30, 2017 were attributable to changes in sales of the following product lines:

**Personal care products:** For the third quarter of 2017 sales of the Company's personal care products increased by \$35,273 (approximately 2%) when compared with the third quarter of 2016, primarily due to increases in sales to the Company's marketing partners in Korea, the United-Kingdom, and Italy, which offset sales declines to the Company's largest marketing partner, ASI, and as well as to the Company's marketing partners in France and Switzerland. Sales to ASI in the third quarter decreased by \$126,452 (approximately 10%), which the



Company believes was due to the timing of orders. Sales to the Company's five other marketing partners increased by \$169,753 (approximately 53%) compared with the third quarter of 2016. The largest sales increase was attributable to the Company's marketing partner in Korea, whose sales increased by \$156,025 (approximately 128%). Sales to the Company's marketing partner in the United Kingdom increased by \$11,272 (approximately 17%), and sales to the Company's marketing partner in Italy increased by \$9,518 (approximately 64%). Slightly offsetting those increases was a decrease in sales of \$5,004 (approximately 4%) to the Company's marketing partner in France, and a decrease of \$2,058 (80%) to the Company's marketing partner in Switzerland.

For the nine-month period ended September 30, 2017 sales of the Company's personal care products increased by \$1,745,868 (approximately 48%) when compared with the same period in 2016, with sales to ASI increasing by \$1,551,820 (approximately 60%). That increase was due primarily to higher sales to ASI in the first and second quarters of 2017 compared with those same quarters in 2016. Nine-month sales to the Company's five other marketing partners increased by \$201,051 (approximately 19%), with increases in Korea, Italy, France, and the United Kingdom slightly offset by a decrease in Switzerland. The nine-month changes in sales were as follows: sales to the Company's marketing partner in Korea increased by \$145,737 (approximately 42%); sales to the Company's marketing partner in Italy increased by \$31,789 (approximately 66%); sales to the Company's marketing partner in France increased by \$23,718 (approximately 6%); sales to the Company's marketing partner in the United Kingdom increased by \$8,651 (approximately 4%); and sales to the Company's marketing partner in Switzerland decreased by \$8,844 (55%).

The Company's sales in Western Europe continue to be negatively impacted by (a) the continuing economic problems in Europe; (b) the strong U.S. dollar relative to the Euro, which has made the Company's products less competitive in Europe, and (c) increased competition. For the past few years the Company has been experiencing additional competition from Asian companies that are manufacturing competitive products in Asia and selling them at much lower prices. This has resulted in a loss of some business to these competitive products. As a result, from time to time it has been necessary, and will continue to be necessary, for the Company to lower its prices in specific cases in order to retain or attract customers, and this has impacted its profit margins on those sales. The Company intends to continue to work with its marketing partners to take whatever steps are necessary to try to recover the business it has lost to these lower-priced products, including continuing to reduce prices on a case by case basis, as needed, in order to remain as competitive as possible.

**(a) Pharmaceuticals:** For the third quarter of 2017 sales of the Company's pharmaceutical products decreased by \$69,322 (approximately 6%) when compared with the third quarter of 2016. For the nine-month period ended September 30, 2017 sales of the Company's pharmaceutical products increased by \$491,138 (approximately 21%) when compared with the first nine months of 2016, with sales of RENACIDIN increasing by 54% for the nine-month period. The decrease in sales for the three-month period was due primarily to slightly higher sales of RENACIDIN in the third quarter of 2016 due to a one-time sale to some governmental agencies that did not recur in the third quarter of 2017. The increase in sales for the nine-month period in 2017 was the result of sales of the new 30mL form of RENACIDIN for the full nine months of 2017, compared with only six months of sales of that new product in the first nine months of 2016, since the new product was only introduced in the second quarter of 2016.

**(b) Medical (non-pharmaceutical) products:** Sales of the Company's medical products decreased by \$228,057 (approximately 30%) for the third quarter of 2017 and by \$269,978 (approximately 14%) for the nine-month period ended September 30, 2017 compared with the comparable periods in 2016. The decrease in medical product sales was primarily attributable to the ordering patterns and stocking levels of three of the primary customers for these products. Sales of these products have been inconsistent on a quarter to quarter basis for the past 3 years due to the large quantities per order and the relative infrequency of these orders. In addition, sales of these products were particularly strong in both the 3rd and 4th quarters of 2016. This caused an increase in the customers' inventory levels and resulted in a decrease in their orders for these products in the first nine months of 2017.

**(c) Industrial and other products:** Sales of the Company's industrial products, as well as other miscellaneous products, decreased by \$970 (approximately 2%) and by \$12,254 (approximately 10%) for the three and nine months, respectively, ended September 30, 2017, when compared to the corresponding periods in 2016. These changes are attributable to customer ordering patterns.

In addition to the above changes in sales, sales allowances increased by \$16,765 and \$75,218 for the three and nine-month periods, respectively, ended September 30, 2017, when compared with the corresponding periods in 2016. This increase was primarily due to increases in allowances for distribution fees and outdated material returns attributable to the Company's pharmaceuticals.

### **Cost of Sales**

For the third quarter of 2017, cost of sales as a percentage of net sales decreased to approximately 35%, from 46% in the third quarter of 2016, and to approximately 42% for the nine-months ended September 30, 2017 compared with 45% for the comparable period in 2016. The decreases for the third quarter of 2017 as compared with third quarter of 2016, and for the first nine months of 2017 as compared with the comparable period in 2016, were primarily due to lower per unit manufacturing costs resulting from the allocation of the Company's fixed overhead costs over a larger number of production units in the three- and nine-month periods of 2017 compared with the comparable periods in 2016. This was due to an increase in demand for the Company's products in 2017, which resulted in greater production and greater production efficiencies.

### **Operating Expenses**

Operating expenses consist of selling, general and administrative expenses. Operating expenses decreased by \$22,144 (approximately 5%) for the third quarter of 2017 compared with the comparable quarter in 2016, and by \$72,944 (approximately 5%) for the nine months ended September 30, 2017 compared with the nine months ended September 30, 2016. The decreases for the third quarter and the first nine months of 2017 were primarily attributable to decreases in payroll and payroll related expenses and consulting fees. Operating expenses are expected to remain relatively constant.

### **Research and Development Expenses**

Research and development expenses increased by \$938 (less than 1%) for the third quarter of 2017, and \$13,481 (approximately 3%) for the first nine months of 2017 compared with the comparable periods in 2016.

## **Investment Income**

Investment income increased by \$49,606 (approximately 77%) for the third quarter of 2017 compared with the comparable quarter of 2016, and by \$49,056 (approximately 26%) for the first nine months of 2017 compared with the first nine months of 2016. These increases were mainly due to gains on sales of investments in stock and bond mutual funds in 2017.

## **Provision for income taxes**

The Company's effective income tax rate remained approximately 31.0% for all periods presented, and is expected to remain consistent for the current fiscal year.

## **LIQUIDITY AND CAPITAL RESOURCES**

Working capital increased from \$12,668,221 at December 31, 2016 to \$13,982,187 at September 30, 2017, an increase of \$1,313,966. The current ratio decreased from 13.1 to 1 at December 31, 2016 to 9.8 to 1 at September 30, 2017. The increase in working capital was primarily due to increases in receivables and marketable securities, partially offset by an increase in accounts payable and income taxes payable. The decrease in the current ratio was primarily due to increases in accounts payable and income taxes payable.

The Company believes that its working capital is, and will continue to be, sufficient to support its operating requirements for at least the next twelve months. The Company does not expect to incur any significant capital expenditures for the remainder of 2017.

The Company generated cash from operations of \$3,214,348 and \$1,666,481 for the nine months ended September 30, 2017 and September 30, 2016, respectively. The increase in cash from operations was primarily due to an increase in net income.

Cash used in investing activities for the nine-month period ended September 30, 2017 and September 30, 2016 was \$ 1,070,104 and \$116,090, respectively. The increase was primarily due to a reduction in the proceeds received from sales of marketable securities in the nine months ended September 30, 2017 compared with the nine months ended September 30, 2016.

Cash used in financing activities was \$1,925,066 and \$1,603,871 for the nine months ended September 30, 2017 and September 30, 2016, respectively. The increase was due to an increase in the dividends paid per share from \$0.35 per share in 2016 to \$0.42 per share in 2017.

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.

## **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, 2017