

UNITED GUARDIAN INC  
Form 10-Q  
November 09, 2016

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, 2016

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 11-1719724  
(State or Other Jurisdiction of (I.R.S. Employer Identification No.)  
Incorporation or Organization)

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**

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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:

4,594,319 shares of common stock, par value \$.10 per share  
(as of November 1, 2016)

**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<br>ENDED<br>SEPTEMBER 30, |                  | NINE MONTHS<br>ENDED<br>SEPTEMBER 30, |                  |
|--|--|------------------|---------------------------------------|------------------|
|  | <u>2016</u>                            | <u>2015</u>      | <u>2016</u>                           | <u>2015</u>      |
| Net sales  | \$3,457,633                            | \$3,620,365      | \$7,859,374                           | \$12,116,849     |
| Costs and expenses:                                  |  |                  |                                       |                  |
| Cost of sales  | 1,594,198                              | 1,330,842        | 3,499,589                             | 4,413,986        |
| Operating expenses                                   | 460,401                                | 411,619          | 1,393,286                             | 1,316,537        |
| Research and development                             | 158,593                                | 184,100          | 494,054                               | 506,949          |
| <b>Total costs and expenses</b>                      | <b>2,213,192</b>                       | <b>1,926,561</b> | <b>5,386,929</b>                      | <b>6,237,472</b> |
| Income from operations                               | 1,244,441                              | 1,693,804        | 2,472,445                             | 5,879,377        |
| Investment income                                    | 64,644                                 | 74,133           | 190,862                               | 200,481          |
| Income before income taxes                           | 1,309,085                              | 1,767,937        | 2,663,307                             | 6,079,858        |
| Provision for income taxes                           | 408,950                                | 550,400          | 832,700                               | 1,891,300        |
| Net Income   | \$900,135                              | \$1,217,537      | \$1,830,607                           | \$4,188,558      |
| <b>Earnings per common share (Basic and Diluted)</b> | <b>\$0.20</b>                          | <b>\$0.26</b>    | <b>\$0.40</b>                         | <b>\$0.91</b>    |
| Weighted average shares – basic and diluted          | 4,594,319                              | 4,596,439        | 4,594,319                             | 4,596,439        |

See Notes to Condensed Financial Statements

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UNITED-GUARDIAN, INC.

**STATEMENTS OF COMPREHENSIVE INCOME**

(UNAUDITED)

|   | <b>Three months ended</b> |                    | <b>NINE months ended</b> |                    |
|---|---------------------------|--------------------|--------------------------|--------------------|
|   | <b>SEPTEMBER 30,</b>      |                    | <b>SEPTEMBER 30,</b>     |                    |
|   | <b><u>2016</u></b>        | <b><u>2015</u></b> | <b><u>2016</u></b>       | <b><u>2015</u></b> |
| Net income  | \$900,135                 | \$1,217,537        | \$1,830,607              | \$4,188,558        |
| Other comprehensive income:   |                           |                    |                          |                    |
| Unrealized gain (loss) on marketable securities                           | 88,765                    | (171,267 )         | 363,250                  | (214,755 )         |
| Income tax (expense) benefit related to other comprehensive income (loss) | (30,180 )                 | 58,231             | (123,505 )               | 73,017             |
| Total other comprehensive income (loss), net of tax                       | 58,585                    | (113,036 )         | 239,745                  | (141,738 )         |
| Comprehensive income  | \$958,720                 | \$1,104,501        | \$2,070,352              | \$4,046,820        |

See Notes to Condensed Financial Statements

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UNITED-GUARDIAN, INC.

**BALANCE SHEETS**

| <u>ASSETS</u>   | SEPTEMBER<br>30,<br><b>2016</b><br>(UNAUDITED) | DECEMBER 31,<br>2015<br>(AUDITED) |
|---|--|-----------------------------------|
| Current assets:   |  |                                   |
| Cash and cash equivalents   | \$ 1,027,009                                   | \$ 1,080,489                      |
| Marketable securities   | 11,073,802                                     | 10,719,470                        |
| Accounts receivable, net of allowance for doubtful accounts of \$8,654 at<br>September 30, 2016 and December 31, 2015 | 1,827,347                                      | 934,754                           |
| Inventories (net)   | 1,271,490                                      | 1,293,642                         |
| Prepaid expenses and other current assets   | 148,321  | 160,533                           |
| Prepaid income taxes  | --   | 95,767                            |
| Deferred income taxes   | 233,305  | 233,305                           |
| Total current assets  | 15,581,274                                     | 14,517,960                        |
| Property, plant and equipment:  |  |                                   |
| Land  | 69,000   | 69,000                            |
| Factory equipment and fixtures  | 4,299,883                                      | 4,175,940                         |
| Building and improvements   | 2,776,602                                      | 2,776,602                         |
| Total property, plant and equipment   | 7,145,485                                      | 7,021,542                         |
| Less: Accumulated depreciation  | 6,048,374                                      | 5,925,429                         |
| Total property, plant and equipment, net  | 1,097,111                                      | 1,096,113                         |
| Other assets (net)  | 63,000   | 74,118                            |
| <b>TOTAL ASSETS</b>   | <b>\$ 16,741,385</b>                           | <b>\$ 15,688,191</b>              |

See Notes to Condensed Financial Statements

UNITED-GUARDIAN, INC.

**BALANCE SHEETS**

(continued)

**LIABILITIES AND STOCKHOLDERS' EQUITY**

|   | <b>SEPTEMBER<br/>30,<br/>2016</b> | <b>DECEMBER<br/>31,<br/>2015</b> |
|---|-----------------------------------|----------------------------------|
|   | (UNAUDITED)                       | (AUDITED)                        |
| Current liabilities:  |                                   |                                  |
| Accounts payable  | \$ 110,468                        | \$ 96,815                        |
| Accrued expenses  | 898,546                           | 785,623                          |
| Dividend payable  | 110,070                           | 105,929                          |
| Income taxes payable  | 336,632                           | ---                              |
| Total current liabilities   | 1,455,716                         | 988,367                          |
| Deferred income taxes   | 241,515                           | 118,010                          |
| Commitments and contingencies   |                                   |                                  |
| Stockholders' equity:   |                                   |                                  |
| Common stock \$.10 par value, authorized, 10,000,000 shares; 4,594,319 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively. | 459,432                           | 459,432                          |
| Accumulated other comprehensive income  | 312,106                           | 72,361                           |
| Retained earnings   | 14,272,616                        | 14,050,021                       |
| Total stockholders' equity  | 15,044,154                        | 14,581,814                       |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>   | <b>\$ 16,741,385</b>              | <b>\$ 15,688,191</b>             |

See Notes to Condensed Financial Statements



UNITED-GUARDIAN, INC.

**STATEMENTS OF CASH FLOWS**

(UNAUDITED)

|   | NINE MONTHS ENDED<br>SEPTEMBER 30, |              |
|---|------------------------------------|--------------|
|   | <u>2016</u>                        | <u>2015</u>  |
| Cash flows from operating activities:   |                                    |              |
| Net income  | \$ 1,830,607                       | \$ 4,188,558 |
| Adjustments to reconcile net income to net cash provided by operating activities:       |                                    |              |
| Depreciation and amortization   | 134,063                            | 129,157      |
| Realized loss/(gain) on sale of marketable securities                                   | 1,063                              | (3,714 )     |
| Provision for bad debt  | ---                                | (12,326 )    |
| (Decrease) increase in cash resulting from changes in operating assets and liabilities: |                                    |              |
| Accounts receivable   | (892,593 )                         | (577,957 )   |
| Inventories   | 22,152                             | (51,955 )    |
| Prepaid expenses and other current and non-current assets                               | 12,214                             | 28,119       |
| Prepaid taxes   | 95,767                             | 30,643       |
| Accounts payable  | 13,653                             | 395,968      |
| Accrued expenses and taxes payable  | 449,555                            | (19,572 )    |
| Net cash provided by operating activities   | 1,666,481                          | 4,106,921    |
| Cash flows from investing activities:   |                                    |              |
| Acquisition of property, plant and equipment  | (123,943 )                         | (33,074 )    |
| Proceeds from sale of marketable securities   | 1,437,832                          | 2,024,752    |
| Purchases of marketable securities  | (1,429,979)                        | (4,603,393)  |
| Net cash used in investing activities   | (116,090 )                         | (2,611,715)  |
| Cash flows from financing activities:   |                                    |              |
| Dividends paid  | (1,603,871)                        | (2,298,219)  |
| Net cash used in financing activities   | (1,603,871)                        | (2,298,219)  |
| Net decrease in cash and cash equivalents   | (53,480 )                          | (803,013 )   |
| Cash and cash equivalents at beginning of period  | 1,080,489                          | 2,023,383    |
| Cash and cash equivalents at end of period  | \$ 1,027,009                       | \$ 1,220,370 |

See Notes to Condensed Financial Statements

UNITED-GUARDIAN, INC.

## 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 S-X. 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, 2016 are not necessarily indicative of results that ultimately may be achieved for any other interim period or for the year ending December 31, 2016. 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, 2015.

### 3. Supplemental Disclosure of Non-cash Item

Dividends payable which relate to unconverted shares of one of the Company’s previous corporate entities increased by \$4,141 for the nine months ended September 30, 2016. During the nine-month period ended September 30, 2015 the Company increased retained earnings by \$21,894 to account for excess prior year dividends returned to the Company which had been held by its transfer agent. See the audited financial statements and the notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2015 for additional information.

### 4. 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.

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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, 2016 (Unaudited)</u> | <u>Cost</u>  | <u>Fair Value</u> | <u>Unrealized Gain/(Loss)</u> |
|---------------------------------------|--------------|-------------------|-------------------------------|
| Available for Sale:                   |              |                   |                               |
| Fixed income mutual funds             | \$9,986,346  | \$10,326,963      | \$340,617                     |
| Equity and other mutual funds         | 614,568      | 746,839           | 132,271                       |
|                                       | \$10,600,914 | \$11,073,802      | \$472,888                     |
| <u>December 31, 2015 (Audited)</u>    |              |                   |                               |
| Available for Sale:                   |              |                   |                               |
| Fixed income mutual funds             | \$9,968,948  | \$9,900,587       | \$(68,361)                    |
| Equity and other mutual funds         | 640,884      | 818,883           | 177,999                       |
|                                       | \$10,609,832 | \$10,719,470      | \$109,638                     |

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. 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.

Investment income consisted principally of 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.

5. Inventories

| <u>September 30,</u><br><u>2016</u> | <u>December</u><br><u>31,</u><br><u>2015</u> |
|-------------------------------------|--|
| (UNAUDITED)                         | (AUDITED)                                    |

Inventories consist of the following:

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|                   |              |              |
|-------------------|--------------|--------------|
| Raw materials     | \$ 339,132   | \$ 334,320   |
| Work in process   | 65,384       | 44,836       |
| Finished products | 866,974      | 914,486      |
|                   | \$ 1,271,490 | \$ 1,293,642 |

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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, 2016 and December 31, 2015 are stated 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, 2016 and December 31, 2015, the Company did not have any unrecognized tax benefits.

## 7. Comprehensive Income

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

| Changes in Accumulated Other<br>Comprehensive Income  | September<br>30,<br><u>2016</u><br>(Unaudited) | <b>December<br/>31,<br/><u>2015</u></b><br>(Audited) |
|---|--|--|
| Beginning balance – net of tax  | \$ 72,361                                      | \$ 259,869   |
| Unrealized gain/(loss) on marketable securities before reclassifications - net of tax               | 240,808  | (189,903)  |
| Realized (loss)/gain on sale of securities reclassified from accumulated other comprehensive income | (1,063 )                                       | 2,395  |
| Ending balance - net of tax   | \$ 312,106                                     | \$ 72,361  |

## 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, 2016 and 2015 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, 2016 and 2015. The Company did not make any discretionary contributions to the DC Plan in the three- and

nine-month periods ended September 30, 2016 and 2015.

#### 9. Related-Party Transactions

During the nine-month periods ended September 30, 2016 and September 30, 2015, the Company paid to Bonamassa, Maietta and Cartelli, LLP \$10,000 and \$8,000, respectively, for accounting and tax services. Lawrence Maietta, a partner in Bonamassa, Maietta and Cartelli, LLP, is a director of the Company.

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## 10. Other Information

Accrued Expenses

|                              | <b>September 30,<br/><u>2016</u></b> | <b>December<br/>31,<br/><u>2015</u></b> |
|------------------------------|--------------------------------------|---|
|                              | (UNAUDITED)                          | (AUDITED)                               |
| Bonuses                      | \$ 100,000                           | \$ 250,000                              |
| 401K plan contributions      | 131,250                              | ---                                     |
| Distribution fees            | 222,332                              | 206,977                                 |
| Payroll and related expenses | 186,871                              | 109,451                                 |
| Annual report                | 47,595                               | 66,000                                  |
| Audit fee                    | 49,568                               | 82,000                                  |
| Other                        | 160,930                              | 71,195                                  |
| Total Accrued Expenses       | \$ 898,546                           | \$ 785,623                              |

**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 marketed worldwide by five marketing partners, of which Ashland Specialty Ingredients ("ASI") purchases the largest volume of products from the Company. Approximately 47% 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 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.

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, 2015, 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, 2015, 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, 2015, and a comparison of the results of operations for the three and nine months ended September 30, 2016 and September 30, 2015. 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, 2015.

## RESULTS OF OPERATIONS

### Net Sales

Net sales for the third quarter of 2016 decreased by \$162,732 (4.5%) compared with the third quarter of 2015. Net sales for the first nine months of 2016 decreased by \$4,257,475 (35.1%) as compared with the corresponding period in 2015. The changes in net sales for the three and nine months ended September 30, 2016 were attributable to changes in sales of the following product lines:

- (a) **Personal care products:** For the third quarter of 2016 the Company's sales of personal care products decreased by \$887,108 (36.0%) when compared with the third quarter of 2015. For the nine-month period ended September 30, 2016 the Company's sales of personal care products decreased by \$5,432,102 (59.8%) when compared with the nine-month period in 2015. The decrease in sales in both periods was due primarily to decreases in shipments of the Company's extensive line of personal care products to ASI, the Company's largest marketing partner. Sales to ASI alone decreased by \$963,470 (43.6%) and \$5,420,721 (67.8%) for the three-month and nine-month periods, respectively, ended September 30, 2016, compared with the corresponding periods in 2015. The Company has been informed by ASI that this decline in purchases was almost entirely the result of (1) overly optimistic order forecasts by some of ASI's customers in China, which resulted in ASI purchasing more of one of the Company's LUBRAJEL products than it needed; and (2) a regulatory issue in China unrelated to LUBRAJEL that resulted in the temporary suspension of production of some products that contained an ingredient that was not approved for use in China, and

which also happened to contain LUBRAJEL as one of the ingredients. The companies that had been marketing those products are in the process of reformulating them to comply with Chinese regulations. As a result of these two issues, ASI accumulated significant excess inventory that it has been gradually working off since the fourth quarter of 2015 and continuing through most of the first nine months of 2016. That excess inventory has now been reduced to the appropriate level for ASI to resume purchasing LUBRAJEL for sale in China. Accordingly, shipments to ASI for sale in China resumed in September 2016. ASI has informed the Company that it anticipates that it will once again be placing regular monthly orders for product intended for shipment to China.



Sales of the Company's personal care products to its four marketing partners in Western Europe in the third quarter of 2016 increased by \$23,636 (13.6%) compared with the third quarter of 2015, with an increase in sales to the Company's marketing partners in France and Switzerland being partially offset by a decrease in sales to the Company's marketing partners in the United Kingdom and Italy. For the first nine months of 2016 sales to the Company's marketing partners in Western Europe other than ASI increased by \$160,466 (29.9%), with an increase in sales to the Company's marketing partners in France and the United Kingdom being partially offset by a decrease in sales to its marketing partners in Italy and Switzerland. Sales to the Company's South Korean marketing partner increased by \$69,171 (131.1%) for the third quarter of 2016 compared with the third quarter of 2015, and decreased by \$142,712 (29.0%) for the first nine months of 2016 compared with the same period in 2015. That marketing partner experienced unusually strong sales in the first nine months of 2015 that were not repeated in 2016.

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 selling imitations of the Company's products at much lower prices, particularly Chinese and Korean companies, or other companies manufacturing competitive products in China and Korea. 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.

**Pharmaceuticals:** For the third quarter of 2016 sales of the Company's pharmaceutical products increased by \$666,672 (130.8%) when compared with the third quarter of 2015. For the nine-month period ended September 30, 2016 sales of the Company's pharmaceutical products increased by \$1,025,858 (75.0%) when compared with the first nine months of 2015. The increase in sales for the three-month and nine-month periods was primarily the result of an increase in sales of RENACIDIN due to the introduction of the Company's new 30mL single dose form of that product in April 2016.

**Medical (non-pharmaceutical) products:** Sales of the Company's medical products increased by \$93,376 (13.8%) for the third quarter of 2016 and by \$221,193 (12.8%) for the nine-month period ended September 30, 2016 (c)compared with the comparable periods in 2015. The increase in medical product sales was primarily attributable to an increase in sales to a major multinational medical products company due to the addition of one of the Company's products to a new product line.

**Industrial and other products:** Sales of the Company's industrial products, as well as other miscellaneous (d)products, increased by \$9,968 for the third quarter of 2016, and by \$2,403 for the nine-month period ended September 30, 2016 compared with the comparable periods in 2015.

In addition to the above changes in sales, net sales allowances increased by \$45,923 and \$76,293 for the three and nine month periods, respectively, ended September 30, 2016, when compared with the corresponding periods in 2015. 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 2016, cost of sales as a percentage of sales increased to 46.1%, from 36.8% in the third quarter of 2015, and to 44.5% for the nine-months ended September 30, 2016 compared with 36.4% for the comparable period in 2015. The increases for the third quarter of 2016 as compared to third quarter of 2015 and for the first nine months of 2016 as compared with the comparable period in 2015 were primarily due to the substantial increase in the sales of the Company's RENACIDIN, which is manufactured for the Company by a third party and therefore has a lower profit margin than many of the Company's other products.

### **Operating Expenses**

Operating expenses consist of selling, general and administrative expenses. Operating expenses increased by \$48,782 (11.9%) for the third quarter of 2016 compared with the comparable quarter in 2015, and by \$76,749 (5.8%) for the nine months ended September 30, 2016 compared with the nine months ended September 30, 2015. The increase for the third quarter and the first nine months of 2016 were primarily attributable to increases 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 decreased by \$25,507 (13.9%) for the third quarter of 2016, and \$12,895 (2.5%) for the first nine months of 2016, which related to decreases in payroll and payroll-related expenses.

### **Investment Income**

Investment income decreased by \$9,489 for the third quarter of 2016 compared with the comparable quarter of 2015, and by \$9,619 for the nine months of 2016 compared with the nine months of 2015. These decreases were mainly due to decreases in investment income from both stock and bond mutual funds.

### **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 \$13,529,593 at December 31, 2015 to \$14,125,558 at September 30, 2016, an increase of \$595,965. The current ratio decreased from 14.7 to 1 at December 31, 2015 to 10.7 to 1 at September 30, 2016. The increase in working capital was primarily due to increases in receivables and marketable securities, partially offset by an increase in income taxes payable. The decrease in the current ratio was primarily due to increases in accruals for expenses and income taxes.

The Company believes that its working capital is, and will continue to be, sufficient to support its operating requirements for at least the next twelve months. The Company does not expect to incur any significant capital expenditures for the remainder of 2016.

The Company generated cash from operations of \$1,666,481 and \$4,106,921 for the nine months ended September 30, 2016 and September 30, 2015, respectively. The decrease in cash from operations was primarily due to a decrease in net income.

Cash used in investing activities for the nine-month period ended September 30, 2016 and September 30, 2015 was \$116,090 and \$2,611,715, respectively. This decrease was primarily due to a decrease in cash used for the purchase of marketable securities in the nine months ended September 30, 2016 compared with the nine months ended September 30, 2015.

Cash used in financing activities was \$1,603,871 and \$2,298,219 for the nine months ended September 30, 2016 and September 30, 2015, respectively. This decrease was due to a decrease in the dividend paid per share from \$0.50 per share in 2015 to \$0.35 per share in 2016.

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

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**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.

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**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, 2016