

UNITED GUARDIAN INC  
Form 10-Q  
November 12, 2013

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, 2013

TRANSITION REPORT PURSUANT TO 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-10526

UNITED-GUARDIAN, INC.  
(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

11-1719724  
(I.R.S. Employer Identification No.)

230 Marcus Boulevard, Hauppauge, New York 11788  
(Address of Principal Executive Offices)

(631) 273-0900  
(Registrant's Telephone Number)

N/A  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  
Yes  No

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

4,596,439 shares of common stock, par value \$.10 per share  
(as of November 1, 2013)

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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,	
	2013	2012	2013	2012
Net sales	\$ 3,404,227	\$ 3,527,387	\$ 10,984,959	\$ 11,151,179
Costs and expenses:				
Cost of sales	1,211,678	1,334,491	3,986,129	4,339,450
Operating expenses	654,027	598,100	1,851,486	1,749,217
Total costs and expenses	1,865,705	1,932,591	5,837,615	6,088,667
Income from operations	1,538,522	1,594,796	5,147,344	5,062,512
Other income:				
Investment income	47,739	51,065	166,846	162,413
Gain on sale of assets	---	---	---	2,750
Income from damage settlement	292,830	---	878,490	---
Total other income	340,569	51,065	1,045,336	165,163
Income before income taxes	1,879,091	1,645,861	6,192,680	5,227,675
Provision for income taxes	602,300	529,700	2,008,700	1,689,800
Net Income	\$ 1,276,791	\$ 1,116,161	\$ 4,183,980	\$ 3,537,875
Earnings per common share (Basic and Diluted)	\$ 0.28	\$ 0.24	\$ 0.91	\$ 0.77
Weighted average shares – basic and diluted	4,596,439	4,596,439	4,596,439	4,596,439

See Notes to Condensed Financial Statements

## UNITED-GUARDIAN, INC.

STATEMENTS OF COMPREHENSIVE INCOME  
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2013	2012	2013	2012
Net income	\$ 1,276,791	\$ 1,116,161	\$ 4,183,980	\$ 3,537,875
Other comprehensive income:				
Unrealized gain (loss) on marketable securities	70,568	150,846	(115,637 )	315,379
Income tax (expense) benefit related to other comprehensive income	(25,008 )	(52,429 )	40,016	(109,457 )
Other comprehensive income (loss), net of tax	45,560	98,417	(75,621 )	205,922
Comprehensive income	\$ 1,322,351	\$ 1,214,578	\$ 4,108,359	\$ 3,743,797

See Notes to Condensed Financial Statements

## UNITED-GUARDIAN, INC.

## BALANCE SHEETS

ASSETS	SEPTEMBER 30, 2013 (UNAUDITED)	DECEMBER 31, 2012 (AUDITED)
Current assets:		
Cash and cash equivalents	\$ 1,935,750	\$ 1,748,382
Marketable securities	8,698,103	7,743,946
Accounts receivable, net of allowance for doubtful accounts of \$29,000 at September 30, 2013 and December 31, 2012	2,376,054	1,017,627
Receivable in connection with damage settlement	97,610	518,050
Inventories (net)	1,121,591	1,242,750
Prepaid expenses and other current assets	99,784	132,458
Prepaid income taxes	---	3,602
Deferred income taxes	216,588	216,588
Total current assets	14,545,480	12,623,403
Property, plant and equipment:		
Land	69,000	69,000
Factory equipment and fixtures	4,056,719	3,842,927
Building and improvements	2,747,263	2,725,993
Waste disposal plant	133,532	133,532
Total property, plant and equipment	7,006,514	6,771,452
Less: Accumulated depreciation	5,676,501	5,535,589
Total property, plant and equipment, net	1,330,013	1,235,863
Other assets	4,438	---
TOTAL ASSETS	\$ 15,879,931	\$ 13,859,266

See Notes to Condensed Financial Statements

## UNITED-GUARDIAN, INC.

BALANCE SHEETS  
(continued)

## LIABILITIES AND STOCKHOLDERS' EQUITY

	SEPTEMBER 30, 2013 (UNAUDITED)	DECEMBER 31, 2012 (AUDITED)
Current liabilities:		
Accounts payable	\$ 136,095	\$ 151,385
Accrued expenses	704,436	676,123
Income taxes payable	99,624	---
Total current liabilities	940,155	827,508
Deferred income taxes	153,724	193,740
Commitment (Note 13)		
Stockholders' equity:		
Common stock \$.10 par value, authorized, 10,000,000 shares; 4,596,439 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively.	459,644	459,644
Accumulated other comprehensive income	103,358	178,979
Retained earnings	14,223,050	12,199,395
Total stockholders' equity	14,786,052	12,838,018
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 15,879,931</b>	<b>\$ 13,859,266</b>

See Notes to Condensed Financial Statements

## UNITED-GUARDIAN, INC.

STATEMENTS OF CASH FLOWS  
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30,	
	2013	2012
Cash flows from operating activities:		
Net income	\$4,183,980	\$3,537,875
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	140,911	181,916
Realized (gain) loss on sale of marketable securities	(13,439 )	39,214
Realized (gain) on sale of assets	---	(2,750 )
(Decrease) increase in cash resulting from changes in operating assets and liabilities:		
Accounts receivable	(1,358,427)	170,899
Receivable from damage settlement	420,440	---
Inventories	121,159	343,184
Prepaid expenses and other current and non-current assets	28,237	59,395
Prepaid taxes	3,602	78,613
Accounts payable	(15,290 )	(236,926 )
Accrued expenses and taxes payable	127,937	96,623
Net cash provided by operating activities	3,639,110	4,268,043
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(235,062 )	(121,992 )
Proceeds from sale of assets	---	2,750
Proceeds from sale of marketable securities	1,719,983	1,716,244
Purchases of marketable securities	(2,776,337)	(3,329,913)
Net cash used in investing activities	(1,291,416)	(1,732,911)
Cash flows from financing activities:		
Dividends paid	(2,160,326)	(1,930,504)
Net cash used in financing activities	(2,160,326)	(1,930,504)
Net increase in cash and cash equivalents	187,368	604,628
Cash and cash equivalents at beginning of period	1,748,382	1,090,974
Cash and cash equivalents at end of period	\$1,935,750	\$1,695,602

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 and other personal care products, pharmaceuticals, medical and health care products and proprietary specialty industrial products.

2. Basis of Presentation

Interim financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Regulation SX. In the opinion of management, all adjustments, consisting solely of normal recurring accruals, considered necessary for the fair presentation of financial statements for the interim periods have been included. The results of operations for the three and nine months ended September 30, 2013 are not necessarily indicative of results that ultimately may be achieved for any other interim period or for the year ending December 31, 2013. 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, 2012.

3. Stock-Based Compensation

The Company maintains a stock-based compensation plan for its employees and directors, which is more fully described in the Company's Annual Report on Form 10-K for the year ended December 31, 2012. The Company recognizes the fair value of all share-based payments to employees, including grants of employee stock options, as a compensation expense in the financial statement. As of September 30, 2013, the Company had no share-based awards outstanding and exercisable and did not grant any options during the third quarter of 2013 or for the nine months of 2013.

4. Recent Accounting Pronouncements

In February 2013, FASB issued ASU 2013-02, “Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income.” This update requires the Company to report amounts being reclassified out of accumulated other comprehensive income by component. It also requires the Company to report either on the face of the financial statements or in the notes any significant amounts reclassified out of accumulated other comprehensive income, by the respective line items of net income, but only if the item reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For those amounts not required to be reclassified directly to net income in their entirety, the Company is required to cross-reference other disclosures that provide further details about the amounts. The amendments are effective for reporting periods beginning after December 15, 2012. The Company adopted this amendment effective January 1, 2013. The adoption of this amendment did not have a material impact on the Company’s results of operations.

## 5. Investments

The fair values of the Company's marketable securities are determined in accordance with GAAP, with fair value being defined as the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the Company utilizes the three-tier value hierarchy, as prescribed by GAAP, which prioritizes the inputs used in measuring fair value, as follows:

- Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical Assets or liabilities in active markets.
- Level 2 - inputs to the valuation methodology include quoted prices for similar assets and Liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

September 30, 2013	Cost	Fair Value	Unrealized Gain/(Loss)
Available for Sale:			
Corporate bonds (matures within 1 year)	\$203,920	\$201,181	\$ (2,739 )
Fixed income mutual funds	8,060,793	8,152,409	91,616
Equity and other mutual funds	275,108	344,513	69,405
	\$8,539,821	\$8,698,103	\$ 158,282

December 31, 2012

Available for Sale:			
Corporate bonds (maturities of 1-5 years)	\$203,920	\$203,357	\$(563 )
Fixed income mutual funds	6,991,181	7,242,998	251,817
Equity and other mutual funds	274,926	297,591	22,665
	\$7,470,027	\$7,743,946	\$273,919

Proceeds from the sale and redemption of marketable securities amounted to \$1,719,983 for the nine months ended September 30, 2013, which included realized gains of \$13,439. Proceeds from the sale and redemption of marketable securities amounted to \$1,716,244 for nine months ended September 30, 2012, which included realized losses of \$39,214.

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

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

## 6. Inventories

	September 30, 2013	December 31, 2012
Inventories consist of the following:		
Raw materials and work in process	\$ 482,427	\$ 481,544
Finished products	639,164	761,206
	\$ 1,121,591	\$ 1,242,750

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, 2013 and December 31, 2012 are stated net of a reserve of \$20,000 for slow-moving or obsolete inventory.

## 7. Supplemental Financial Statement Information

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

Cash payments for taxes were \$1,905,474 and \$1,524,245 for the nine months ended September 30, 2013 and September 30, 2012, respectively. No payments were made for interest during these periods.

The Company paid \$2,160,326 (\$0.47 per share) and \$1,930,504 (\$0.42 per share) in dividends for the nine months ended September 30, 2013 and September 30, 2012, respectively.

Research and development expenses amounted to \$558,458 and \$536,509 for the nine-month period ended September 30, 2013 and September 30, 2012, respectively, and \$259,535 and \$246,119 for the three-month period ended September 30, 2013 and September 30, 2012, respectively.

## 8. Income Taxes

The Company's tax provision is based on its estimated annual effective rate. The Company continues to fully recognize its tax benefits, which are offset by a valuation allowance to the extent that it is more likely than not that the deferred tax assets will not be realized.

The Company files consolidated Federal income tax returns in the U.S. with its inactive subsidiary, and separate income tax returns in New York State. The Company is subject to examination by the Internal Revenue Service and by New York State for years 2010 through 2012.

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

## 9. Comprehensive Income

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

	September 30, 2013	September 30, 2012
Changes in Accumulated Other Comprehensive Income		
Beginning balance	\$ 178,979	\$ 34,612
Unrealized (loss)/gain on marketable securities before reclassifications - net of tax	(89,060 )	245,136
Realized gain/(loss) on sale of securities reclassified from accumulated other comprehensive income	13,439	(39,214 )
Ending balance - net of tax	\$ 103,358	\$ 240,534

## 10. Income from Damage Settlement

In May 2012 the Company's supplier of RENACIDIN® IRRIGATION ("RENACIDIN") curtailed production due to manufacturing issues. As a result of that curtailment, the Company and its supplier entered into a settlement agreement whereby the supplier agreed to pay the Company \$518,050 for profit the Company lost during 2012 as a result of the curtailment, and an additional \$97,610 per month beginning January 1, 2013 for each month that the curtailment continued. The payments were to continue until either the supply contract ended in January 2014 or product delivery resumed, whichever occurred first. In addition, the supplier agreed to pay the Company \$48,805 for the first two months following the resumption of shipments, and \$24,402 for the third month following the resumption of shipments (the "ramp-up payments"), while the Company ramped up sales after deliveries resumed. Because deliveries resumed on October 30, 2013, the regular monthly compensation accrual of \$97,610 ceased as of that date, and the ramp-up payments began to accrue on November 1st. The income from the damage settlement for the third quarter of 2013 amounted to \$292,830 and for the nine months of 2013 amounted to \$878,490.

## 11. Defined Contribution Plan

The Company sponsors a 401(k) defined contribution plan ("DC Plan") that provides for a dollar-for-dollar employer matching contribution of the first 4% of each employee's pay. Employees become fully vested in employer matching contributions after one year of employment. In addition, the Company has been accruing \$175,000 per year toward the payment of a discretionary contribution to each employee's 401(k) account based on a pay-to-pay formula that qualifies the DC Plan as a safe harbor under IRS regulations. In each of the three-month periods ended September 30, 2013 and 2012 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, 2013 and 2012. The Company did not make any discretionary contributions to the DC Plan in the three- and nine-month periods ended September 30, 2013 and 2012.

## 12. Related-Party Transactions

During the nine-month periods ended September 30, 2013 and September 30, 2012, the Company paid to Bonamassa, Maietta and Cartelli, LLP \$8,500 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.

## 13. Capital Expenditure Commitment

As part of the Company's ongoing project to change to a new contract manufacturer for RENACIDIN, and to change the packaging of RENACIDIN from glass to plastic, the Company contracted for the development and production of a mold and other related production equipment that will enable the Company's new supplier to produce RENACIDIN in new single-dose bottles. The equipment will be owned by the Company, and can be used at other manufacturing facilities if necessary. The cost of manufacturing the mold and related equipment is estimated to be approximately \$167,000, of which the Company has already paid \$163,970. The balance is expected to be paid by the end of the fourth quarter of 2013.

## 14. Other Information

## Accrued Expenses

	September 30, 2013	December 31, 2012
Accrued bonuses	\$ 125,000	\$ 229,000
Accrued 401K plan contributions	131,250	---
Accrued distribution fees	177,229	196,617
Payroll and related expenses	129,101	72,306
Accrued annual report	49,549	66,000
Accrued audit fee	58,519	68,467
Other	33,788	43,733
	\$ 704,436	\$ 676,123

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

## FORWARD-LOOKING STATEMENTS

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

Forward-looking statements involve inherent risks and uncertainties, and important factors (many of which are beyond our control) could cause actual results to differ materially from those set forth in the forward-looking statements. In addition to those specific risks and uncertainties set forth in the Company's reports currently on file with the SEC, some other factors that may affect the future results of operations of the Company are: the development of products that may be superior to those of the Company; changes in the quality or composition of the Company's products; lack of market acceptance of the Company's products; the Company's ability to develop

new products; general economic or industry conditions; changes in intellectual property rights; changes in interest rates; new legislation or regulatory requirements; conditions of the securities markets; the Company's ability to raise capital; changes in accounting principles, policies or guidelines; financial or political instability; acts of war or terrorism; and other economic, competitive, governmental, regulatory and technical factors that may affect the Company's operations, products, services and prices.

Accordingly, results actually achieved may differ materially from those anticipated as a result of such forward-looking statements, and those statements speak only as of the date they are made. The Company does not undertake, and specifically disclaims, any obligation to update any forward-looking statements to reflect events or circumstances occurring after the date of such statements.

## OVERVIEW

The Company is a Delaware corporation that conducts research, product development, manufacturing and marketing of cosmetic ingredients, personal and health care products, pharmaceuticals, and specialty industrial products. All of the products that the Company manufactures, with the exception of RENACIDIN, are produced at its facility in Hauppauge, New York, and are marketed through marketing partners, distributors, wholesalers, direct advertising, mailings, and trade exhibitions. Its most important personal care product line is its LUBRAJEL® line of water-based moisturizing and lubricating gels. It also sells two pharmaceutical products for urological uses. Those products are sold primarily through the major drug wholesalers, which in turn sell the products to pharmacies, hospitals, nursing homes and other long-term care facilities, and to government agencies, primarily the U.S. Department of Veterans Affairs.

The Company's pharmaceutical products are distributed primarily in the United States. Its personal care products are marketed worldwide by five marketing partners, of which Ashland Specialty Ingredients ("ASI") purchases the largest volume of products from the Company. Approximately one-half of the Company's products are sold, either directly or through the Company's marketing partners, to end users located outside of the United States. 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, many of its products are either unique in their field or have some unique characteristics, and therefore are not in direct competition with the products of other pharmaceutical, specialty chemical, or health care companies. Many of the Company's products are manufactured using patented or proprietary processes. The Company's research and development department is actively working on the development of new products to expand the Company's line of personal care and performance products.



The Company recognizes revenue when products are shipped, title and risk of loss pass to the customers, persuasive evidence of a sales arrangement exists, and collections are reasonably assured. An allowance for returns, based on historical experience, is taken as a reduction of sales within the same period the revenue is recognized.

The Company has been issued many patents and trademarks and intends, whenever possible, to make efforts to obtain patents in connection with its product development program.

## CRITICAL ACCOUNTING POLICIES

As disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012, the discussion and analysis of the Company's financial condition and results of operations are based on its financial statements, which have been prepared in conformity with U.S. generally accepted accounting principles. 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, 2012, 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, 2012, and a comparison of the results of operations for the three and nine months ended September 30, 2013 and September 30, 2012. 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, 2012.

## RESULTS OF OPERATIONS

### Sales

Net sales for the third quarter of 2013 decreased by \$123,160 (3.5%) compared with the comparable period in 2012. Net sales for the first nine months of 2013 decreased by \$166,220 (1.5%) as compared with the corresponding period in 2012. The changes in net sales for the three and nine months ended September 30, 2013 were attributable to changes in sales of the following product lines:

- (a) Personal care products: For the third quarter of 2013 the Company's sales of personal care products increased by \$103,755 (4.3%) when compared with the third quarter of 2012. For the nine-month period ended September 30, 2013 the Company's sales of personal care products increased by \$702,882 (9.4%) when compared with the comparable period in 2012. The increases in sales for the third quarter of 2013 and the first nine months of 2013 were primarily due to an increase in sales of the Company's extensive line of personal care products to ASI, the Company's largest marketing partner. Sales to ASI increased by \$261,446 (13.9%) and \$787,220 (13.0%) for the three- and nine-month periods, respectively, ended September 30, 2013, compared with the corresponding periods in 2012.

(b) Pharmaceuticals: For the third quarter of 2013 the Company's sales of pharmaceutical products decreased by \$49,346 (27.9%) when compared with the third quarter of 2012. For the nine-month period ended September 30, 2013 the Company's sales of pharmaceutical products decreased by \$1,051,087 (75.2%) when compared with the comparable period of 2012. The decreases in pharmaceutical sales for both the third quarter and the first nine months of 2013 were attributable to decreased sales of RENACIDIN. These decreases were the result of RENACIDIN not being available for sale at all during 2013, whereas in 2012 it was available for sale for the first seven months of the year. The lack of RENACIDIN inventory in 2013 was caused by a production curtailment that took place at the manufacturing facility of the Company's RENACIDIN supplier. This supplier has been paying the Company \$97,610 for each month that the product is not available, which the Company believes covers most of its lost profits each month. These payments were to continue until either deliveries resumed or the contract with the supplier ended on January 20, 2014, whichever came first. In addition, the supplier agreed to pay the Company \$48,805 for the first two months following the resumption of shipments, and \$24,402 for the third month following the resumption of shipments (the "ramp-up payments"), while the Company ramped up sales after deliveries resumed. The supplier resumed shipments of RENACIDIN on October 30th. As a result, the regular monthly compensation accrual of \$97,610 ceased as of that date, and the ramp-up payments began to accrue on November 1st.

The Company is also working with a new supplier that will manufacture the product in a smaller single-dose plastic bottle. The Company's current timetable is to have its application to sell that new form of the product filed with the U.S. Food and Drug Administration in the first quarter of 2014, with the hope of having an approval to sell the product by the end of the third quarter of 2014. Until then, the Company plans to resume sales of the current form of the product, and its current supplier has agreed to extend production beyond the January 2014 contract termination date, which the Company believes will enable it to bring in sufficient inventory to last until the Company's new supplier is approved and the Company can begin to sell the new single-dose unit.

(c) Medical (non-pharmaceutical) products: Sales of the Company's medical products decreased by \$184,801 (20.4%) for the third quarter of 2013, and increased by \$128,505 (5.6%) for the nine-month period ended September 30, 2013 compared with the comparable periods in 2012. These changes were primarily attributable to the ordering patterns of the Company's customers for these products.

(d) Industrial and other products: Sales of the Company's industrial products were essentially the same in the third quarters of 2013 and 2012, and decreased by \$14,830 (11.3%) for the nine months ended September 30, 2013, when compared with the comparable period in 2012.

In addition to the above changes in sales, net sales allowances decreased by \$7,612 and \$68,310 for the three and nine months, respectively, ended September 30, 2013, when compared with the corresponding periods in 2012. The decreases were primarily due to: (a) a decrease in chargebacks paid to the U.S. Department of Veterans Affairs; (b) a reduction in pharmaceutical sales rebates to state Medicaid agencies, the Department of Defense, and Medicare; and (c) lower distribution fees to wholesalers due to the lack of RENACIDIN sales.

### Cost of Sales

For the third quarter of 2013, cost of sales as a percentage of sales decreased to 35.6%, down from 37.8% in the third quarter of 2012. Cost of sales as a percentage of sales decreased to 36.3% for the nine-months ended September 30, 2013, down from 38.9% for the comparable period in 2012. The decreases were primarily the result of the change in the company's product mix due to the absence of RENACIDIN sales in 2013, and a proportionate increase in sales of the Company's higher-margin LUBRAJEL products.

### Operating Expenses

Operating expenses consist of selling, general and administrative expenses. Operating expenses increased by \$55,927 (9.4%) for the third quarter of 2013 compared with the comparable quarter in 2012, and increased by \$102,269 (5.8%) for the nine months ended September 30, 2013 compared with the nine months ended September 30, 2012. The increases for the third quarter and the nine months of 2013 were primarily attributable to increases in payroll and payroll related expenses as well as increases in professional fees and automobile expenses.

### Other Income

Other income increased by \$289,504 for the third quarter of 2013 compared with the third quarter of 2012, and increased by \$880,173 for the nine-month period of 2013 compared with the nine-month period of 2012. The increases for the third quarter and nine months of 2013 were mainly attributable to the \$292,830 and the \$878,490, respectively, that were paid to the Company by its RENACIDIN supplier in connection with the supplier's curtailment of RENACIDIN production (see "Pharmaceuticals" above). For more information on the RENACIDIN production curtailment and the associated compensation payments please see the Company's Annual report on Form 10-K for 2012.

The Company earns interest income from money market funds and bonds, and dividend income from both stock and bond mutual funds. In addition to Other Income increasing in the third quarter of 2013 as a result of the RENACIDIN settlement, the Company's investment income for the third quarter of 2013 decreased by \$3,326 (6.5%) compared with the comparable quarter of 2012. For the nine-month period of 2013 investment income increased by \$4,433 (2.7%) as compared with the nine-month period of 2012.

### Provision for Income Taxes

The provision for income taxes increased by \$72,600 (13.7%) and \$318,900 (18.9%) for the three and nine months, respectively, ended September 30, 2013, when compared with the comparable periods in 2012. The increase for the third quarter and the nine months of 2013 was due primarily to an increase in income before taxes.

The Company's effective income tax rate remained approximately 32.0% for all periods presented.

## LIQUIDITY AND CAPITAL RESOURCES

Working capital increased from \$11,795,895 at December 31, 2012 to \$13,605,325 at September 30, 2013, an increase of \$1,809,430. The increase was primarily due to an increase in accounts receivable, marketable securities, and cash. The current ratio increased from 15.25 to 1 at December 31, 2012 to 15.47 to 1 at September 30, 2013. The increase in the current ratio was primarily due to the effect of an increase in accounts receivable.

During the nine-month period ended September 30, 2013 the average period of time that an account receivable was outstanding was approximately 42 days. The average period of time that an account receivable was outstanding during the nine-month period ended September 30, 2012 was 39 days. The increase for 2013 was the result of a larger volume of orders placed in the month of September.

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 2013.

The Company generated cash from operations of \$3,639,110 and \$4,268,043 for the nine months ended September 30, 2013 and September 30, 2012, respectively. The decrease was primarily due to increases in accounts receivable.

Cash used in investing activities for the nine-month period ended September 30, 2013 and September 30, 2012 was \$1,291,416, and \$1,732,911, respectively. This decrease was primarily due to a decrease in the purchases of marketable securities in the nine months ended September 30, 2013 compared with the nine months ended September 30, 2012.

Cash used in financing activities was \$2,160,326 and \$1,930,504 for the nine months ended September 30, 2013 and September 30, 2012, respectively. This increase was mainly due to an increase in the dividend paid, from \$0.42 per share in 2012 to \$0.47 per share in 2013.

The Company expects to continue to use its cash to make dividend payments, to purchase marketable securities, and to take advantage of other opportunities that are in the best interest of the Company and its shareholders, should they arise.

## RECENT ACCOUNTING PRONOUNCEMENTS

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

## OFF-BALANCE-SHEET ARRANGEMENTS

The Company has no off-balance-sheet transactions that have, or are reasonably likely to have, a current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

## CONTRACTUAL OBLIGATIONS AND COMMITMENTS

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



Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

Item 4. CONTROLS AND PROCEDURES

(a) DISCLOSURE CONTROLS AND PROCEDURES

The Company's management, including its Principal Executive Officer and Chief Financial Officer, has evaluated the design, operation, and effectiveness of the Company's disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 (the "Exchange Act"). There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon the evaluation performed by the Company's management, including its Principal Executive Officer and Chief Financial Officer, it was determined that, as of the end of the period covered by this quarterly report, the Company's disclosure controls and procedures were effective in providing reasonable assurance that information required to be disclosed in the reports filed or submitted pursuant to the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to the Company's management, including its Principal Executive Officer and Chief Financial Officer, or persons performing similar functions, as appropriate, to allow timely decisions regarding disclosures.

(b) CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's Principal Executive Officer and Chief Financial Officer have determined that, during the period covered by this quarterly report, there were no changes in the Company's internal control over financial reporting that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. They have also concluded that there were no significant changes in the Company's internal controls after the date of the evaluation.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

NONE

ITEM 1A. RISK FACTORS

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

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

NONE

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

NONE

ITEM 4. MINE SAFETY DISCLOSURES

NONE

ITEM 5. OTHER INFORMATION

NONE

ITEM 6. EXHIBITS

31.1 Certification of Kenneth H. Globus, President and Principal Executive Officer of the Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Robert S. Rubinger, Chief Financial Officer of the Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32 Certifications of the Principal Executive Officer and Chief Financial Officer of the Company, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

UNITED-GUARDIAN, INC.  
(Registrant)

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

By: /S/ ROBERT S. RUBINGER  
Robert S. Rubinger  
Chief Financial Officer  
Date: November 7, 2013