UNITED GUARDIAN INC
Form 10-Q
August 08, 2018

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 June 30, 2018

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 Incorporation or Organization) (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

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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, 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
Non-accelerated filer **(Do not check if a smaller reporting company)**
Accelerated filer
Smaller reporting company
Emerging growth company

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 August 1, 2018)

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UNITED-GUARDIAN, INC.

INDEX TO FINANCIAL STATEMENTS

Part I. FINANCIAL INFORMATION

ITEM 1. Condensed Financial Statements

UNITED-GUARDIAN, INC.

STATEMENTS OF INCOME
(UNAUDITED)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2018	2017	2018	2017
Sales:				
Gross sales	$4,141,399	$3,891,656	$7,808,346	$6,764,379
Sales allowances and returns	(182,181)	(116,905)	(329,616)	(203,240)
Net Sales	3,959,218	3,774,751	7,478,730	6,561,139
Costs and expenses:				
Cost of sales	1,610,173	1,667,113	3,061,104	2,931,209
Operating expenses	534,420	418,605	1,058,534	882,085
Research and development	91,285	158,275	192,949	348,004
Total costs and expenses	2,235,878	2,243,993	4,312,587	4,161,298
Income from operations	1,723,340	1,530,758	3,166,143	2,399,841
Other income (expense):				
Investment income	57,777	68,690	104,559	121,562
Unrealized gain (loss) on marketable securities	95,020	---	(40,130)	---
Realized (loss) gain on marketable securities	(113,276)	4,106	(113,276)	4,106
Loss on trade-in of equipment	---	---	(12,837)	---
Total other income (expense)	39,521	72,796	(61,684)	125,668
Income before provision for income taxes	1,762,861	1,603,554	3,104,459	2,525,509
Provision for income taxes	370,199	499,405	651,935	786,925
Net Income	$1,392,662	$1,104,149	$2,452,524	$1,738,584
Earnings per common share (basic and diluted)	$0.30	$0.24	$0.53	$0.38

Weighted average shares – basic and diluted	4,594,319	4,594,319	4,594,319	4,594,319

See Notes to Condensed Financial Statements

UNITED-GUARDIAN, INC.

STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net income	$1,392,662	$1,104,149	$2,452,524	$1,738,584
Other comprehensive income				
Unrealized gain on marketable securities	---	96,459	---	228,130
Income tax expense related to other comprehensive income	---	(32,797)	---	(77,565)
Total other comprehensive income, net of tax	---	63,662	---	150,565
Total Comprehensive Income	$1,392,662	$1,167,811	$2,452,524	$1,889,149

See Notes to Condensed Financial Statements

UNITED-GUARDIAN, INC.

BALANCE SHEETS

	JUNE 30, 2018 (UNAUDITED)	DECEMBER 31, 2017 (AUDITED)
Current assets:		
Cash and cash equivalents	$ 3,856,089	$ 724,721
Marketable securities	4,821,299	7,721,568
Accounts receivable, net of allowance for doubtful accounts of $21,220 at June 30, 2018 and December 31, 2017	2,151,949	1,905,415
Inventories (net)	1,500,369	1,340,523
Prepaid expenses and other current assets	197,659	157,964
Prepaid income taxes	331	331
Total current assets	12,527,696	11,850,522
Net property, plant and equipment:		
Land	69,000	69,000
Factory equipment and fixtures	4,379,913	4,363,978
Building and improvements	2,793,402	2,793,402
Total property, plant and equipment	7,242,315	7,226,380
Less: Accumulated depreciation	6,360,256	6,283,493
Total property, plant and equipment, net	882,059	942,887
Other assets (net)	37,059	59,471
TOTAL ASSETS	$ 13,446,814	$ 12,852,880

See Notes to Condensed Financial Statements

UNITED-GUARDIAN, INC.

BALANCE SHEETS

(continued)

LIABILITIES AND STOCKHOLDERS' EQUITY

	JUNE 30, 2018	DECEMBER 31, 2017
Current liabilities:	(UNAUDITED)	(AUDITED)
Accounts payable	$ 473,337	$ 354,285
Accrued expenses	1,268,044	881,327
Income taxes payable	14,999	55,848
Dividends payable	136,789	130,923
Total current liabilities	1,893,169	1,422,383
Deferred income taxes(net)	1,640	33,855
Commitments and contingencies		
Stockholders' equity:		
Common stock $.10 par value, 10,000,000 shares authorized;4,594,319 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	459,432	459,432
Accumulated other comprehensive income	---	466,025
Retained earnings	11,092,573	10,471,185
Total stockholders' equity	11,552,005	11,396,642
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 13,446,814	$ 12,852,880

See Notes to Condensed Financial Statements

UNITED-GUARDIAN, INC.

STATEMENTS OF CASH FLOWS
(UNAUDITED)

	SIX MONTHS ENDED June 30,	
Cash flows from operating activities:	2018	2017
Net income	$2,452,524	$1,738,584
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	95,956	99,697
Unrealized loss on marketable securities	40,130	---
Realized loss (gain) on sale of marketable securities	113,276	(4,106)
Realized loss from trade-in of equipment	12,837	---
(Decrease) increase in cash resulting from changes in operating assets and liabilities:		
Accounts receivable	(246,534)	(589,783)
Inventories	(159,846)	489,866
Prepaid expenses and other current assets	(39,695)	(61,816)
Prepaid income taxes	---	82,732
Other non-current assets	15,000	---
Deferred income taxes	(32,215)	---
Accounts payable	119,052	2,649
Accrued expenses	386,717	167,136
Income taxes payable	(40,849)	104,193
Net cash provided by operating activities	2,716,353	2,029,152
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(40,552)	(1,605)
Proceeds from sale of marketable securities	4,097,370	321,114
Purchase of marketable securities	(1,350,509)	(142,820)
Net cash provided by investing activities	2,706,309	176,689
Cash flows from financing activities:		
Dividends paid	(2,291,294)	(1,925,066)
Net cash used in financing activities	(2,291,294)	(1,925,066)
Net increase in cash and cash equivalents	3,131,368	280,775
Cash and cash equivalents at beginning of period	724,721	424,301
Cash and cash equivalents at end of period	$3,856,089	$705,076
Non-cash investing activities: cost of equipment traded in (net)	39,837	---
Supplemental disclosure of cash flow information		
Taxes paid	$725,000	$600,000
Supplemental disclosure of non-cash dividends payable	$5,866	$4,952

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 condensed financial statements of the Company are prepared in accordance with United States Generally Accepted Accounting Principles (“US GAAP”) 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 six-month periods ended June 30, 2018 (also referred to as the "second quarter of 2018" and the "first half of 2018", respectively) are not necessarily indicative of results that ultimately may be achieved for any other interim period or for the year ending December 31, 2018. 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, 2017.

3. Use of Estimates

In preparing financial statements in conformity with US 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. Revenue Recognition

Effective January 1, 2018 the Company adopted ASC Topic 606 “Revenue from Contracts with Customers” using the modified retrospective method. Under the new guidance revenue is recognized when a customer obtains control of promised goods or services, in an amount that reflects the consideration expected to be received in exchange for those goods or services. Our principal source of revenue is product sales.

The Company recognizes revenue from sales of its personal care, medical, and industrial products when those products are shipped, as long as a valid purchase order has been received and future collection of the sale amount is reasonably assured. These products are shipped "Ex-Works" from the Company's facility in Hauppauge, NY, and it is at this time that risk of loss and responsibility for the shipment passes to the customer. Sales of these products are deemed final, and there is no obligation on the part of the Company to repurchase or allow the return of these goods unless they are defective.

The Company's pharmaceutical products are shipped via common carrier upon receipt of a valid purchase order, with, in most cases, the Company paying the shipping costs. Sales of pharmaceutical products are final and revenue is recognized at the time of shipment. Pharmaceutical products are returnable only at the discretion of the Company unless (a) they are found to be defective; (b) the product is damaged in shipping; or (c) the product is outdated (but not more than one year after their expiration date, which is a return policy which conforms to standard pharmaceutical industry practice). The Company estimates an allowance for outdated material returns based on prior year historical returns of their pharmaceutical products.

The Company does not make sales on consignment, and the collection of the proceeds of the sale of any of the Company's products is not contingent upon the customer being able to sell the goods to a third party.

Any allowances for returns are taken as a reduction of sales within the same period the revenue is recognized. Such allowances are determined based on historical experience. The Company has not experienced significant fluctuations between estimated allowances and actual activity.

The timing between recognition of revenue for product sales and the receipt of payment is not significant. The Company's standard credit terms, which vary depending on the customer, range between 30 and 60 days. The Company uses its judgment on a case-by-case basis to determine its ability to collect outstanding receivables, and provides allowances for any receivables for which collection has become doubtful. As of June 30, 2018 and December 31, 2017 the allowance for doubtful accounts receivable amounted to $21,220. Prompt-pay discounts are offered to some customers; however, due the uncertainty of the customers actually taking the discounts, the discounts are recorded when they are taken.

The Company has distribution fee contracts with certain customers in connection with the sales of our products that entitle them to distribution-related fees. The Company estimates and records distribution fees due to these customers in sales returns and allowances.

Disaggregated net sales by product class is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Personal Care	$2,326,733	$2,300,832	$4,449,845	$3,785,765
Pharmaceutical	1,144,954	956,614	2,119,075	1,777,790
Medical	626,353	596,755	1,166,822	1,133,092
Industrial and other	43,359	37,455	72,604	67,732
Gross Sales	4,141,399	3,891,656	7,808,346	6,764,379

Less: Allowances and returns	(182,181)	(116,905)	(329,616)	(203,240)
Net Sales	$3,959,218	$3,774,751	$7,478,730	$6,561,139

The Company's personal care products are marketed worldwide by six marketing partners, of which U.S.-based Ashland Specialty Ingredients ("ASI") purchases the largest volume. Approximately 16% of the Company's products are sold to end users located outside of the United States ("U.S."), either directly by the Company or by the Company's other five marketing partners.

Disaggregated gross sales by geographic region is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
United States*	$3,473,306	$3,199,123	$6,530,115	$5,452,802
Other countries	668,093	692,533	1,278,231	1,311,577
Gross Sales	$4,141,399	$3,891,656	$7,808,346	$6,764,379

* Although a significant percentage of ASI's purchases from the Company are sold to foreign customers, all sales to ASI are considered United States (domestic) sales for financial reporting purposes, since all shipments to ASI are shipped to ASI's warehouses in the U.S. A certain percentage of those products are subsequently shipped by ASI to its foreign customers. Based on sales information provided to the Company by ASI, in the second quarter of 2018 approximately 77% of ASI's sales were to customers in foreign countries, with a significant amount going to China. In addition, there are four 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 also considered domestic sales. In the second quarter of 2018 approximately 52% 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.

Beginning July 6, 2018, the United States imposed a 25% tariff on $34 billion worth of certain goods shipped into the U.S. from China. In response, China imposed comparable tariffs on certain U.S. goods imported into China from the U.S. As of the date of this quarterly report there is a proposal under review in a public notice and comment process to tariff an additional $16 billion worth of additional goods shipped into the U.S from China. If those tariffs are approved, China has stated that it will levy tariffs on a second list of additional goods imported into China from the U.S. As of the date of this report the amount to be levied on these additional products, both by the U.S. and China, has not yet been finalized, but it could be as high as 25%. Many of the Company's products that are exported from the U.S. to China by ASI may be subject to this tariff if it is imposed. The Company is working closely with ASI to prepare for this possibility, and is discussing how the additional costs resulting from the imposition of the tariff will be allocated between the Company and ASI. Since the market for the Company's products in China is very price sensitive, it is unlikely that the Company will be able to recoup any of the tariff costs from its customers in China, in which case the Company believes that the volume of its products that ASI purchases from the Company for sale into China may not be negatively impacted. However, the Company's absorption of at least some of the tariff could have a significant negative impact on its gross margins on those sales, which will negatively impact its future net income until the tariffs are removed. Since the items on this second retaliatory list, the amount of the tariff, and the implementation date have not yet been approved or finalized, the Company has recorded an accrual of $53,000 to cover the potential tariffs that may be imposed on goods that are currently in transit to China and which are the most likely to be tariffed upon their arrival in China if the tariffs are implemented sometime in the month of August. The Company has based its accrual on the 25% tariff that was imposed on July 6, 2018, which the Company believes is the most likely tariff amount as of the date of this report. The Company will continue to monitor the status of the tariff situation and will, when appropriate, accrue for future tariffs as the situation requires.

5. Marketable Securities

Marketable securities include investments in fixed income and equity mutual funds and government securities, which are reported at their fair values. Effective January 2018, the Company adopted Accounting Standards Update ("ASU") 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities". This amendment requires companies to measure equity investments at fair value with the changes in fair value recognized in net income.

In accordance with the implementation of the standard, the Company recognized a cumulative-effect adjustment, related to unrealized gains on marketable equity securities, to reduce accumulated other comprehensive income and increase retained earnings on January 1, 2018 by $466,025.

In conformity with ASC 205-10 "Presentation of Financial Statements", as it relates to the comparability of financial statements, because ASU 2016-01 was not implemented retroactively, in order for the amounts presented in the 2018 financial statements to be comparable to the same period in 2017, the following table illustrates the impact the implementation of the standard would have had on the three- and six-month periods ended June 30, 2017:

Statements of Income

Three Months Ended
June 30, 2017

	As Reported	Adjustments	Balance With ASU 2016-01 Adoption
Unrealized gain on marketable securities	$---	$ 96,459	$96,459
Income before provision for income taxes	1,603,554	96,459	1,700,013
Provision for income taxes	499,405	32,797	532,202
Net income	1,104,149	63,662	1,167,811
Earnings per common share (basic and diluted)	$0.24	$ 0.01	$0.25

Six Months Ended

June 30, 2017

	As Reported	Adjustments	Balance With ASU 2016-01 Adoption
Unrealized gain on marketable securities	$---	$ 228,130	$228,130
Income before provision for income taxes	2,525,509	228,130	2,753,639
Provision for income taxes	786,925	77,565	864,490
Net income	1,738,584	150,565	1,889,149
Earnings per common share (basic and diluted)	$0.38	$ 0.03	$0.41

In addition, the disaggregated net gains and losses on the marketable securities recognized in the income statements for the three- and six-month periods ended June 30, 2018 are as follows:

	Three months ended June 30	Six months ended June 30
Net losses recognized during the period on marketable securities	$(18,256)	$(153,406)
Less: Net losses recognized during the period on marketable securities sold during the period	(113,276)	(113,276)
Unrealized gains (losses) recognized during the reporting period on marketable securities still held at the reporting date	$95,020	$(40,130)

The following tables summarize the Company's investments:

June 30, 2018 (Unaudited)

	Cost	Fair value	Unrealized gain
Fixed income mutual funds	$2,987,577	$3,033,592	$46,015
Equity and other mutual funds	1,283,947	1,787,707	503,760
Total marketable securities	$4,271,524	$4,821,299	$549,775

December 31, 2017 (Audited)

Fixed income mutual funds	$6,003,131	$6,113,099	$109,968
Equity and other mutual funds	1,128,532	1,608,469	479,937
Total marketable securities	$7,131,663	$7,721,568	$589,905

Investment income is recognized when earned and consists principally of interest income from fixed income mutual funds and dividend income from equity and other mutual funds. Realized gains and losses on sales of investments are determined on a specific identification basis.

Proceeds from the sale and redemption of marketable securities amounted to $4,097,370 for the first half of 2018, which included realized losses of $113,276. Proceeds from the sale and redemption of marketable securities amounted to $321,114 for the first half of 2017, which included realized gains of $4,106.

6. Inventories

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Inventories consist of the following:		
Raw materials	$404,394	$363,739
Work in process	80,063	39,004
Finished products	1,015,912	937,780
Total Inventories	$1,500,369	$1,340,523

Inventories are valued at the lower of cost and net realizable 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 June 30, 2018 and December 31, 2017 are stated net of a reserve of $20,000 for slow-moving or obsolete inventory. At June 30, 2018 and December 31, 2017, the Company had an allowance of $124,550 and $127,768, respectively, for possible outdated material returns, which is included in accrued expenses.

7. Income Taxes

The Company’s tax provision is based on its estimated annual effective tax rate. The Company continues to fully recognize its tax benefits, and as of June 30, 2018 and December 31, 2017, the Company did not have any unrecognized tax benefits. The Company’s provision for income taxes for the three and six months ended June 30 comprises the following:

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Provision for Federal Income Taxes - Current	$374,032	$499,405	$684,151	$786,925
Provision for Federal Income Taxes - Deferred	(3,833)	---	(32,216)	---
Total Provision for income taxes	$370,199	$499,405	$651,935	$786,925

8. Comprehensive Income

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

Changes in Accumulated Other <u>Comprehensive Income</u>	Six months ended June 30, 2018 (Unaudited)	Year ended December 31,2017 (Audited)
Beginning balance	$466,025	$175,634
Reclassification of accumulated other comprehensive income to retained earnings in accordance with ASU-2016-01 (See Note 1)	(466,025)	---
Unrealized gain on marketable securities before reclassifications - net of tax	---	222,499
Reclassification of tax effect on unrealized gain on marketable securities due to federal tax rate change	---	34,595
Realized gain (loss) on sale of securities reclassified from accumulated other comprehensive income – net of tax	---	33,297
Ending balance - net of tax	$---	$466,025

9. 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, prior to the second quarter of 2018, the Company had 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. During the second quarter of 2018, the Company adjusted the annual discretionary contribution to $150,000 per year.

For the three-month periods ended June 30, 2018 and 2017, the Company accrued for discretionary contributions in the amount of $ 35,417 and $43,750, respectively. For the six-month periods ended June 30, 2018 and 2017, the Company had accrued for discretionary contributions in the amount of $79,167 and $87,500, respectively, to the DC Plan. In the first half of 2018 and 2017, the Company did not make any discretionary contribution payments to the DC Plan.

10. Related-Party Transactions

During the first half of 2017, the Company made payments of $8,000 for accounting and tax services to the accounting firm of Bonamassa, Maietta and Cartelli, LLP ("Bonamassa"). The Company made no payments to Bonamassa during the first half of 2018. Lawrence Maietta, a director of the Company, is also a partner in Bonamassa.

11. Other Information

Accrued Expenses

	June 30, 2018	December 31, 2017
	(Unaudited)	(Audited)
Bonuses	$393,392	$200,000
Distribution fees	294,613	254,863
Payroll and related expenses	161,829	152,903
Reserve for outdated material	124,550	127,768
Company 401 (K) contribution	79,167	---
Tariffs and duty	53,000	---
Audit fee	29,468	43,268
Insurance	49,157	---
Annual report expenses	39,228	62,510
Sales rebates	14,000	12,000
Other	29,640	28,015
Total Accrued Expenses	$1,268,044	$881,327

12. Recent Accounting Pronouncements

Effective January 1, 2018, the Company adopted ASC Topic 606 "Revenue from Contracts with Customers", using the modified retrospective method. This guidance supersedes nearly all existing revenue recognition guidance under US GAAP. The core principle of the guidance is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods and services. The Company has drafted its accounting policy for the new standard based on a detailed review of its business and contracts. Based on the new guidance, the Company expects to continue to recognize revenue at the time its products are shipped, and therefore, adoption of this standard did not have a material impact on the financial statements.

In February 2018, the Financial Accounting Standards Board ("FASB") issued ASU 2018-02, "Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This guidance gives businesses the option of reclassifying to retained earnings the so-called "stranded tax effects" left in accumulated other comprehensive income due to the reduction in the corporate income tax rate resulting from the 2017 Tax Cuts and Jobs Act. This amendment is effective for all organizations for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is allowed. The Company adopted this amendment in the fourth quarter of 2017. As a result, a reclassification of $34,595 was made to retained earnings at December 31, 2017 to reflect the effect of the reduction in the federal corporate tax rate as it relates to the unrealized gains on marketable securities that are recorded in other comprehensive income.

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 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.

13. 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 at inception. 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 June 30, 2018, approximately $3,670,000 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 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 58% of the Company’s net sales and 64% of its outstanding accounts receivable at June 30, 2018. The same distributor and marketing partner together accounted for approximately 55% of the Company’s net sales and 59% of its outstanding accounts receivable at June 30, 2017. The year-to-year increases for these customers were due to larger increases in their purchases relative to the purchases of other customers.

14. Earnings Per Share

Basic 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. 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 $0.30 and $0.24 for the three months ended June 30, 2018 and 2017, respectively, and $0.53 and $0.38 for the six months ended June 30, 2018 and 2017, 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 achieved may differ materially from those anticipated as a result of such forward-looking statements, and those statements speak only as of the date they are made.

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

OVERVIEW

The Company is a Delaware corporation that, through its Guardian Laboratories division, conducts research, product development, manufacturing and marketing of cosmetic ingredients, personal and health care products, pharmaceuticals, medical products, and proprietary specialty industrial products. All of the products that the Company manufactures, with the exception of RENACIDIN®, are produced at its facility in Hauppauge, New York, and are marketed through marketing partners, distributors, wholesalers, direct advertising, mailings, and trade exhibitions. Its most important product line is its LUBRAJEL® line of water-based moisturizing and lubricating gels, which are used primarily as ingredients in cosmetic products, as well as medical lubricants. 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 six marketing partners, the largest of which is U.S.-based ASI. The Company also sells two pharmaceutical products for urological uses. Those products are sold primarily in the United States through the major drug wholesalers, which in turn sell the products to pharmacies, hospitals, nursing homes and other long-term care facilities, and to government agencies, primarily the United States 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 functionality or properties that are similar 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’ 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, 2017, 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 US 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, 2017, 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, 2017, and a comparison of the results of operations for the second quarter of 2018 and 2017, and the first half of 2018 and 2017. 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, 2017. All references in this quarterly report to “sales” or “Sales” shall mean Gross Sales.

The Company recognizes revenue from sales of its personal care, medical, and industrial products when those products are shipped, as long as a valid purchase order has been received and future collection of the sale amount is reasonably assured. These products are shipped “Ex-Works” from the Company’s facility in Hauppauge, NY, and it is at this time that risk of loss and responsibility for the shipment passes to the customer. Sales of these products are deemed final, and there is no obligation on the part of the Company to repurchase or allow the return of these goods unless they are defective.

The Company’s pharmaceutical products are shipped via common carrier upon receipt of a valid purchase order, with, in most cases, the Company paying the shipping costs. The Company assumes responsibility for the shipment arriving at its intended destination. Sales of pharmaceutical products are final and revenue is recognized at the time of shipment. Pharmaceutical products are returnable only at the discretion of the Company unless (a) they are found to be defective; (b) the product is damaged in shipping; or (c) the product is outdated (but not more than one year after their expiration date, which is a return policy which conforms to standard pharmaceutical industry practice). The Company estimates an allowance for outdated material returns based on gross sales of their pharmaceutical products.

RESULTS OF OPERATIONS

Gross Sales

Gross Sales for the second quarter of 2018 increased by $249,743 (approximately 6%) when compared with the same period in 2017. Sales for the first half of 2018 increased by $1,043,967 (approximately 15%) as compared with the corresponding period in 2017. The increases in sales for both the second quarter of 2018 and the first half of 2018 were attributable to changes in sales of the following product lines:

(a) **Personal care products:** For the second quarter of 2018 the Company’s sales of personal care products increased by $25,901 (approximately 1%) when compared with the second quarter of 2017, and for the first half of 2018 the Company’s sales of personal care products increased by $664,080 (approximately 18%) when compared with the same period in 2017. The increase in quarterly sales was due primarily to increases in sales to the Company’s marketing partners in the United Kingdom and Korea. The sales increase for the first six months of the year was due primarily to an increase of $558,066 (approximately 19%) in shipments of the Company's extensive line of personal care products to ASI. Sales to ASI decreased slightly (by $17,302, less than 1%) for the second quarter of 2018 compared with the second quarter of 2017, which was due primarily to the second quarter of 2017 having been an unusually strong quarter for sales to ASI.

Sales of the Company’s personal care products to the Company’s five other marketing partners for the second quarter of 2018 increased by $39,016 (approximately 10%) compared with the second quarter of 2017, and increased by $120,671 (approximately 16%) for the first half of 2018 compared with the same period in 2017. For the second quarter of 2018, increases in sales to the Company’s distributors in the United Kingdom, Korea, and Switzerland were partially offset by decreases in sales in France and Italy. The largest quarterly increase was attributable to the Company's marketing partner in Korea, whose sales increased by $27,509 (approximately 52%), followed by the United Kingdom, which increased by $25,458 (approximately 27%). The decreases for the quarter were attributable to a decrease of $8,388 (approximately 26%) in sales to our marketing partner in Italy, and a decrease of $5,821 (approximately 3%) in sales to the Company's marketing partner in France.

For the first half of 2018, increases in sales to the Company's marketing partners in the United Kingdom, Korea, France and Italy were partially offset by a slight decrease in sales in Switzerland. The largest increase for the six-month period for the Company's marketing partners other than ASI was attributable to the Company's marketing partner in the United Kingdom, whose sales increased by $82,825 (approximately 47%), followed by Korea ($34,018, or approximately 16%), France ($3,665, or approximately 1%), and Italy ($3,121, or approximately 6%) compared with the same period in 2017. The sales decrease in the first half of 2018 was attributable to Switzerland, where sales decreased by $2,958 (approximately 43%), compared with the same period in 2017.

The sales fluctuations to the Company's five other marketing partners (other than ASI) are primarily the result of the timing of customer orders, but sales of the Company's products in Western Europe and Asia continue to be negatively impacted by increased competition from companies selling imitations of the Company's products at lower prices, particularly Asian companies that are manufacturing competitive products to the Company's LUBRAJEL product line. This has resulted in a loss of some customers to these competitive products. From time to time it has been necessary for the Company to adjust its prices, as needed, in order to retain or attract certain customers for some of its products, and over the past year the Company has become more aggressive in competing with some of the lower-priced products. Although there has been some impact on the Company's profit margins on those sales, to date this impact has not been significant. The Company intends to continue to aggressively compete with these products in order to remain competitive.

(b) **Pharmaceuticals:** Pharmaceutical sales increased by $188,340 (approximately 20%) in the second quarter of 2018 compared with the same period in 2017, and by $341,285 (approximately 19%) for the first six months of 2018 compared with the same period in 2017. These increases were due primarily to a $175,035 (approximately 21%) increase in sales of RENACIDIN in the second quarter of 2018, and an increase of $331,095 (approximately 22%) in RENACIDIN sales for the first half of 2018 compared with the same period in 2017. This increase was the result a gradual increase in sales of the Company's new 30mL single-dose form of RENACIDIN, which was introduced to the market in April 2016, at which time the Company's older 500mL bottle was discontinued.

(c) **Medical (non-pharmaceutical) products:** Sales of the Company's medical products increased by $29,598 (approximately 5%) in the second quarter of 2018 compared with the same period in 2017 and by $33,730 (approximately 3%) for the first six months of 2018 compared with the same periods in 2017. The increases in medical product sales 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, as well as other miscellaneous products, increased by $5,904 (approximately 16%) and by $4,872 (approximately 7%) for the three and six months, respectively, ended June 30, 2018, when compared with the corresponding periods ended June 30, 2017. These changes are attributable to customer ordering patterns.

In addition to the above changes in sales, sales allowances and returns for both the three- and six-month periods ended June 30, 2018 increased by $65,276 and $126,376, respectively, when compared with the corresponding periods in 2017. The increases for both periods were due primarily to increases in distribution fees charged by product distributors, allowances for outdated material returns and rebates for products purchased for use by the VA, Medicare and Medicaid.

Cost of Sales

For the second quarter of 2018, cost of sales as a percentage of net sales decreased to 40.7%, from 44.1% in the second quarter of 2017. For the first six months of 2018 cost of sales as a percentage of sales decreased to 40.9% from 44.7% for the comparable period in 2017. The decreases were the result of an increase in sales of higher-margin personal care products in both the second quarter and first six months of 2018 compared with the comparable periods in 2017, as well as a decrease in overhead expenses related to plant repairs and maintenance, and payroll and payroll-related expenses.

Operating Expenses

Operating expenses, consisting of selling and general and administrative expenses, increased by $115,815 (approximately 28%) for the second quarter of 2018 compared with the comparable quarter in 2017, and increased by $176,449 (approximately 20%) for the first half of 2018 compared with the first half of 2017. The increases in operating expenses were primarily attributable to increases in plant repairs and maintenance, as well as payroll and payroll related expenses. Operating expenses are expected to remain relatively consistent for the remainder of the year.

Research and Development Expenses

Research and development expenses decreased by $66,990 (approximately 42%) for the second quarter of 2018 compared with the second quarter of 2017, and by $155,055 (approximately 45%) for the first half of 2018 compared with the same period in 2017. The decreases were primarily due to a decrease in payroll and payroll related expenses.

Other Income

Other income decreased by $33,275 (approximately 46%) for the second quarter of 2018 compared with the comparable quarter of 2017, and decreased by $187,352 (approximately 149%) for the first half of 2018 compared with the first half of 2017. These decreases were mainly due to decreases in dividend income from both stock and bond mutual funds in both periods, combined with realized and unrealized losses. Unrealized losses are recognized in accordance with the adoption of ASU 2016-01 “Recognition and Measurement of Financial Assets and Financial Liabilities.” The standard requires changes in fair market value of equity investments to be recognized in net income. In the prior periods in 2017 these changes in fair value were recognized in accumulated other comprehensive income (see Note 5). The Company adopted this standard in the first quarter of 2018.

Provision for Income Taxes

The Company's effective income tax rate was approximately 21% for the first half of 2018 and 31% for the first half of 2017. The Company’s tax rate is expected to remain at 21% for the current fiscal year.

LIQUIDITY AND CAPITAL RESOURCES

Working capital increased from $10,428,139 at December 31, 2017 to $10,634,527 at June 30, 2018, an increase of $206,388. The current ratio decreased from 8.3 to 1 at December 31, 2017 to 6.6 to 1 at June 30, 2018. The increase in working capital was primarily due to an increase in cash and accounts receivable. The decrease in the current ratio was primarily due to the increase in accounts payable and accrued expenses. The increase in accrued expenses was primarily due to an increase in accruals for bonuses and the Company’s 401K contribution.

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 2018.

The Company generated cash from operations of $2,716,353 and $2,029,152 for the first half of 2018 and 2017, respectively. The increase from 2017 to 2018 was primarily due to the increase in net income.

Cash provided by investing activities for the first half of 2018 was $2,706,309, and cash provided by investing activities in the first half of 2017 was $176,689. This increase was primarily due to an increase in the proceeds from the sale of marketable securities in the first half of 2018 compared with the comparable period in 2017.

Cash used in financing activities was $2,291,294 and $1,925,066 for the first half of 2018 and 2017, respectively. This increase was due to an increase in dividends paid to $0.50 per share in 2018 from $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 Andrea J. Young, 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/ ANDREA J. YOUNG
Date: August 7, 2018 Andrea J. Young
Chief Financial Officer