



COSMETIC INGREDIENTS

**UNITED-GUARDIAN, INC.**

*Excellence Through Innovation®*



HEALTH CARE PRODUCTS

*Annual  
Report  
2017*



PHARMACEUTICALS



SPECIALTY INDUSTRIAL PRODUCTS



## Officers and Directors

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President & Principal Executive Officer  
Chairman of the Board of Directors  
General Counsel

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Director; Counsel to the law firm of  
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New York, NY

**ROBERT S. RUBINGER**

Executive Vice President, Secretary,  
Chief Financial Officer, Director of Product  
Development, and Director

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Bonamassa, Maietta & Cartelli, LLP  
Brooklyn, NY

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Vice President  
Production Supervisor  
Director of Plant Operations

**ANDREW A. BOCCONE**

Director; Independent Business Consultant,  
Former President of Kline & Company, Inc.  
(business consulting firm), Little Falls, NJ

**ANDREA J. YOUNG**

Controller

**S. ARI PAPOULIAS**

Director; Principal of ChemRise LLC  
(a business advisory firm providing advice to  
companies in the chemicals industry), Tarrytown, NY

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## Corporate Profile

United-Guardian, Inc. is a publicly-traded (NASDAQ:UG) fully integrated research, development, manufacturing, and marketing company that has been supplying unique and innovative products to the personal care, health care, pharmaceutical, and industrial sectors since 1942. The company's products are developed and manufactured by its Guardian Laboratories Division, and many are proprietary formulations with unique combinations of properties and ingredients. The personal care and cosmetic ingredients are marketed through a worldwide network of marketing partners and distributors, and are used by many of the major multinational cosmetic companies. The pharmaceuticals are sold primarily to full-line drug wholesalers, which distribute them to pharmacies, hospitals, physicians, long-term care facilities, and other health care providers. The health care products are marketed directly to manufacturers of medical devices and other medical products, which incorporate them into their finished products and distribute them to hospitals, pharmacies, and other health care facilities. The specialty industrial products are sold directly to manufacturers in a wide range of industries.

The company's most important product line is its extensive LUBRAJEL<sup>®</sup> line of water-based moisturizing and lubricating gel products. The focus of the company's research at the present time is on developing additional products for the cosmetic ingredient market, especially ingredients that can be used to formulate "natural" cosmetic products.

Over the years the company has been issued over 32 patents. In addition to patent protection, the company also relies on proprietary manufacturing methods and product formulations, which are protected as trade secrets. It has also received ISO 9001:2008 registration from Underwriters Laboratories, Inc., indicating that its documented procedures and overall operations have attained the very high level of quality needed for this global certification level.



# 2017 ANNUAL REPORT

to the stockholders of

## UNITED-GUARDIAN, INC.

April 13, 2018

Dear Stockholder,

I am pleased to report that sales and earnings rose substantially in 2017, with sales increasing by 21% from \$11,144,462 in 2016 to \$13,434,460 in 2017, and net income increasing by 49% from \$2,581,142 (\$0.56 per share) in 2016 to \$3,844,290 (\$0.84 per share) in 2017. Sales of our personal care products alone increased from \$4,916,630 in 2016 to \$6,868,227 this past year, an increase of 40%.

The primary reason for the increase in sales in 2017 was the resumption of sales of one of our Lubrajel® products in China. Those of you who have been stockholders of ours for a while are probably aware that in the fourth quarter of 2015 a regulatory issue in China negatively impacted the sales in China of face mask products, some of which contained Lubrajel. While the regulatory issue had nothing to do with our product, it resulted in many finished products being withdrawn from the market while they were being reformulated to comply with Chinese regulations. Since our distributor for China, Ashland Specialty Ingredients (“ASI”), had based its inventory requirements on the demand it had been experiencing prior to this suspension of sales, the result was a significant amount of excess inventory that needed to be worked off before ASI could resume its purchases for China. This significantly impacted our sales for most of 2016. The situation in China was rectified by August 2016, after which steady orders resumed.

In addition to the increase in sales of our personal care products, our two pharmaceutical products, Renacidin® Irrigation Solution and Clorpectin®, also contributed to stronger sales in 2017, with sales of these products increasing by 16%. Most of that increase was attributable to an increase in Renacidin sales, which increased by 18% from last year. The increase was due to the introduction in April 2016 of our new 30mL single-dose form of the product, which was engineered to dispense the product directly into an indwelling catheter, eliminating the need to use a separate syringe. We recently launched a new web site dedicated to Renacidin ([www.renacidin.com](http://www.renacidin.com)), and are working with a web consultant to expand our internet presence for this product. We are optimistic that these efforts will increase both patient and physician awareness of the product and lead to a gradual increase in sales in the coming years.

While we are very pleased with the significant increase in the sales of our personal care products in 2017, it is important to keep in mind that there continues to be significant competition for our cosmetic ingredients, especially from some Asian manufacturers selling products similar to ours at lower prices. We are actively working with our marketing partners to make our products as competitive as possible in this increasingly competitive marketplace. We still believe that our extensive portfolio of products, as well as our reputation for quality, will enable us to remain competitive and grow our market share. We also believe that if the U.S. dollar continues to weaken, as it did during 2017, our products will become more competitive in many markets.

We are also working closely with our global marketing partners to develop new and innovative products, especially for the personal care market. Our primary focus over the past few years has been on the development of cosmetic ingredients that can be used to formulate “natural” products. The first product developed for this line was our “Lubrajel Natural”, which was followed by Lubrajel Marine, a product that was developed jointly by us and ASI and for that reason is being marketed on a global basis exclusively by ASI. It is a product that both we and ASI feel has significant market potential. This formulation was developed using only ingredients that can be used in “natural” and “organic” products, which in this case includes ingredients sourced from marine vegetation. Like the original Lubrajel Natural, this product has received an “Attestation of Conformity” (“Attestation”) from Ecocert, one of the global organizations responsible for confirming that cosmetic ingredients conform to strict international standards for use in natural and organic cosmetic products. In the case of Lubrajel Marine, the product conforms with both the older Ecocert standard as well as the newer Cosmetic Organic Standard (“COSMOS”) that replaced it. We believe that these Attestations will make these products even more attractive to potential customers looking to develop “natural” cosmetic products. The Lubrajel Marine has been well received, and we are starting to see some small orders coming in as companies begin formulating with it. We believe that there will be a continuing demand for natural cosmetic ingredients, especially for use in personal care products.



In addition to the Lubrajel Natural and Lubrajel Marine we are also continuing our efforts to expand our product portfolio with other new and innovative products. The following is an update on some of those products:

- **LUBRAJEL OIL NATURAL:** This will be the third product in the “natural” line of Lubrajel products. It is being developed to provide lubricating properties and viscosity similar to our very popular Lubrajel Oil, but uses only ingredients that are acceptable for use in cosmetic products making “natural” or “organic” claims. While we are still fine-tuning the formulation, we anticipate that this product will also receive the appropriate Attestation from Ecocert that it complies with the COSMOS standards for use in natural or organic cosmetic products. If we receive positive feedback from our marketing partners we hope to begin marketing this product in the third quarter of 2018.
- **LUBRAJEL TERRA:** This product is based on polysaccharides derived from plant-based materials and, like the other products in the “natural” line, uses only ingredients deemed “natural”. This product is still in the developmental stage, but we hope to have a final formulation by late 2018.
- **AMLA COMPLEX:** Derived from an extract of the Amla fruit (Indian Gooseberry), which is believed to promote certain health benefits, such as healthier skin, hair and nails, the formulation for this product has been finalized and is currently being tested for efficacy. It, too, has received an Attestation from COSMOS that it complies with the COSMOS standard for use in natural and organic cosmetic products. The Company is working closely with its marketing partners to determine the market potential for this product.
- **LUBRAJEL OIL PF:** Similar to our original Lubrajel Oil, this preservative-free version was developed to enable formulators to use their own preservative systems without having to take into account other preservatives. The initial formulation for this product has been completed, and we hope to start sampling the product to our marketing partners soon.

Based on the significant increase in sales and earnings in 2017 the Board of Directors, at its meeting in November, determined that the strong financial results for the year more than justified a continuation of the year-end dividend that we have paid continuously for the past 22 years, and for that reason declared a regular end-of-year dividend of \$0.50 per share. This was paid on December 18, 2017 to all stockholders of record as of December 11, 2017. In addition, based on the large amount of cash the company had on hand, the Board decided that it would be appropriate to pay an additional special dividend of \$0.50 per share, which was paid at the same time as the regular dividend. In making this decision the Board determined that even after the payment of both dividends we would still have more than adequate reserves to cover any anticipated (and unanticipated) capital requirements. This brings the total amount of dividends paid in 2017 to \$1.42 per share. We are pleased to once again be in a position to share our success with our stockholders, and believe that it is in the best interest of the company and its stockholders to continue to pay these dividends when it is appropriate and prudent to do so.

With several new products being sampled to potential customers, we believe that this will be the year that we begin to see sales growth in our natural ingredients line, especially the Lubrajel Marine. Sales for January and February were strong, and we are hopeful that the sales increase that we experienced in 2017 will continue, especially if we are successful in expanding the markets for both our personal care products and our pharmaceutical products, particularly Renacidin. We are excited to see what 2018 will bring, and are confident that it will be another profitable year for us.

UNITED-GUARDIAN, INC.

A handwritten signature in cursive script that reads 'Ken Globus'.

Ken Globus  
President



## STATEMENTS OF INCOME

	Years ended December 31,	
	2017	2016
Sales:		
Gross Sales	\$ 13,434,460	\$ 11,144,462
Sales allowances and returns	<u>(466,255)</u>	<u>(367,595)</u>
<b>Net sales</b>	<b><u>12,968,205</u></b>	<b><u>10,776,867</u></b>
Costs and expenses:		
Cost of sales	5,301,352	4,882,644
Operating expenses	1,785,160	1,852,833
Research and development	<u>646,079</u>	<u>651,828</u>
<b>Total costs and expenses</b>	<b><u>7,732,591</u></b>	<b><u>7,387,305</u></b>
<b>Income from operations</b>	<b><u>5,235,614</u></b>	<b><u>3,389,562</u></b>
Investment income	<u>315,165</u>	<u>306,505</u>
<b>Income before provision for income taxes</b>	<b><u>5,550,779</u></b>	<b><u>3,696,067</u></b>
Provision for income taxes	<u>1,706,489</u>	<u>1,114,925</u>
<b>Net income</b>	<b><u>\$ 3,844,290</u></b>	<b><u>\$ 2,581,142</u></b>
Earnings per common share (basic and diluted)	\$ <u>0.84</u>	\$ <u>0.56</u>
Weighted average shares (basic and diluted)	4,594,319	4,594,319

## STATEMENTS OF COMPREHENSIVE INCOME

	Years ended December 31,	
	2017	2016
Net income	\$ <u>3,844,290</u>	\$ <u>2,581,142</u>
Other comprehensive income:		
Unrealized gain on marketable securities	323,793	156,474
Income tax expense related to other comprehensive income	<u>(67,997)</u>	<u>(53,201)</u>
Total other comprehensive income, net of tax	<u>255,796</u>	<u>103,273</u>
<b>Total comprehensive income</b>	<b><u>\$ 4,100,086</u></b>	<b><u>\$ 2,684,415</u></b>

See Notes to Financial Statements



## BALANCE SHEETS

### ASSETS

	December 31,	
	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$ 724,721	\$ 424,301
Marketable securities	7,721,568	10,218,009
Accounts receivable, net of allowance for doubtful accounts of \$21,220 in 2017 and \$16,943 in 2016	1,905,415	1,597,997
Inventories (net)	1,340,523	1,255,813
Prepaid expenses and other current assets	157,964	135,320
Prepaid income taxes	331	82,732
<b>Total current assets</b>	<b>11,850,522</b>	<b>13,714,172</b>
Property, plant, and equipment:		
Land	69,000	69,000
Factory equipment and fixtures	4,363,978	4,342,629
Building and improvements	2,793,402	2,776,602
<b>Total property, plant and equipment</b>	<b>7,226,380</b>	<b>7,188,231</b>
Less accumulated depreciation	6,283,493	6,097,640
<b>Total property, plant, and equipment (net)</b>	<b>942,887</b>	<b>1,090,591</b>
Deferred income taxes (net)	---	2,382
Other assets (net)	59,471	59,295
<b>TOTAL ASSETS</b>	<b>\$ 12,852,880</b>	<b>\$ 14,866,440</b>

See Notes to Financial Statements

## BALANCE SHEETS

### LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31,	
	<u>2017</u>	<u>2016</u>
Current liabilities:		
Accounts payable	\$ 354,285	\$ 82,821
Accrued expenses	881,327	848,328
Income taxes payable	55,848	---
Dividends payable	<u>130,923</u>	<u>114,802</u>
<b>Total current liabilities</b>	<b><u>1,422,383</u></b>	<b><u>1,045,951</u></b>
Deferred income taxes (net)	<u>33,855</u>	---
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$.10 par value; 10,000,000 shares authorized; 4,594,319 shares issued and outstanding at December 31, 2017 and 2016, respectively	459,432	459,432
Accumulated other comprehensive income	466,025	175,634
Retained earnings	<u>10,471,185</u>	<u>13,185,423</u>
<b>Total stockholders' equity</b>	<b><u>11,396,642</u></b>	<b><u>13,820,489</u></b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ <u>12,852,880</u></b>	<b>\$ <u>14,866,440</u></b>

See Notes to Financial Statements



## STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended December 31, 2017 and 2016

	<u>Common stock</u>		<u>Accumulated other comprehensive income</u>	<u>Retained earnings</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
<b>Balance, January 1, 2016</b>	4,594,319	\$ 459,432	\$ 72,361	\$ 14,050,021	\$ 14,581,814
Change in unrealized gains on marketable securities, net of deferred income tax of \$53,201	---	---	103,273	---	103,273
Net income	---	---	---	2,581,142	2,581,142
Dividends declared, not paid	---	---	---	(8,873)	(8,873)
Dividends declared and paid	---	---	---	(3,436,867)	(3,436,867)
	4,594,319	459,432	175,634	13,185,423	13,820,489
<b>Balance, December 31, 2016</b>	4,594,319	459,432	175,634	13,185,423	13,820,489
Change in unrealized gains on marketable securities, net of deferred income tax of \$67,997	---	---	255,796	---	255,796
Reclassification of tax effect from accumulated other comprehensive income due to federal tax rate change	---	---	34,595	(34,595)	---
Net income	---	---	---	3,844,290	3,844,290
Dividends declared, not paid	---	---	---	(16,684)	(16,684)
Dividends declared and paid	---	---	---	(6,507,249)	(6,507,249)
<b>Balance, December 31, 2017</b>	<b>4,594,319</b>	<b>\$ 459,432</b>	<b>\$ 466,025</b>	<b>\$ 10,471,185</b>	<b>\$ 11,396,642</b>

See Notes to Financial Statements





## STATEMENTS OF CASH FLOWS

	Years ended December 31,	
	2017	2016
Cash flows from operating activities:		
Net income	\$ 3,844,290	\$ 2,581,142
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	200,677	187,035
Realized (gain) loss on sales of marketable securities	(33,297)	1,011
Bad debt expense	4,277	8,289
Deferred income taxes	(31,760)	59,712
(Decrease) increase in cash resulting from changes in operating assets and liabilities:		
Accounts receivable	(311,695)	(671,532)
Inventories	(84,710)	37,829
Prepaid expenses and other current and non-current assets	(37,644)	25,213
Prepaid income taxes	82,401	13,035
Accounts payable	271,464	(13,995)
Income taxes payable	55,848	---
Accrued expenses	32,999	62,705
Dividends payable	(563)	---
<b>Net cash provided by operating activities</b>	<b><u>3,992,287</u></b>	<b><u>2,290,444</u></b>
Cash flows from investing activities:		
Acquisitions of property, plant and equipment	(38,149)	(166,689)
Purchases of marketable securities	(1,922,513)	(2,309,935)
Proceeds from sales of marketable securities	4,776,044	2,966,859
<b>Net cash provided by investing activities</b>	<b><u>2,815,382</u></b>	<b><u>490,235</u></b>
Cash flows from financing activities:		
Dividends paid	(6,507,249)	(3,436,867)
<b>Net cash used in financing activities</b>	<b><u>(6,507,249)</u></b>	<b><u>(3,436,867)</u></b>
Net increase(decrease) in cash and cash equivalents	300,420	(656,188)
Cash and cash equivalents, beginning of year	<u>424,301</u>	1,080,489
Cash and cash equivalents, end of year	\$ <u>724,721</u>	\$ <u>424,301</u>

See Notes to Financial Statements



## NOTES TO FINANCIAL STATEMENTS

### NOTE A - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Nature of Business**

United-Guardian, Inc. (the "Company") is a Delaware corporation that, through its Guardian Laboratories Division, manufactures and markets cosmetic ingredients, personal care products, pharmaceuticals, medical lubricants, health care products, and specialty industrial products. It also conducts research and product development, primarily related to the development of new and unique cosmetic and personal care products. The Company's research and development department also modifies, refines, and expands the uses for existing products, with the goal of further developing the market for the Company's products. Two major product lines, LUBRAJEL® and RENACIDIN® IRRIGATION SOLUTION ("RENACIDIN") together accounted for approximately 94% and 90% of sales for the years ended December 31, 2017 and December 31, 2016, respectively. LUBRAJEL accounted for approximately 69% and 64% of sales for the years ended December 31, 2017 and December 31, 2016, respectively, and RENACIDIN accounted for approximately 25% and 26% of sales for the years ended December 31, 2017 and December 31, 2016, respectively.

#### **Use of Estimates**

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America ("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 revenue 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 to inventory.

#### **Accounts Receivable and Reserves**

The carrying amount of accounts receivable is reduced by a valuation allowance that reflects our best estimate of the amounts that will not be collected. The reserve for accounts receivable comprises the allowance for doubtful accounts and sales returns. In addition to reviewing delinquent accounts receivable, we consider many factors in estimating our reserve, including historical data, experience, customer types and credit worthiness, and economic trends. From time to time, we adjust our assumptions for anticipated changes in any of these or other factors expected to affect collectability.

#### **Revenue Recognition**

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 those goods unless they are defective.

The Company's pharmaceutical products are shipped by 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. However, any product determined by the customer to be out of specification or expired can be returned to the Company for refund or replacement.

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.

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 recognizing revenue at the time its products are shipped, and therefore adoption of the standard did not have a material impact on its financial statements and is not expected to have a material impact in the future.

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

### **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 December 31, 2017, approximately \$517,000 exceeded the FDIC limit.

### **Dividends**

On May 17, 2017, the Company's Board of Directors declared a semi-annual cash dividend of \$0.42 per share, which was paid on June 12, 2017 to all stockholders of record as of May 30, 2017. On November 29, 2017, the Company's Board of Directors declared a semi-annual cash dividend of \$0.50 per share and an additional special dividend of \$0.50 per share, for a total dividend of \$1.00 per share, which was paid on December 18, 2017, to all stockholders of record as of December 11, 2017. In 2017 the Company declared a total of \$6,523,933 in dividends, of which \$6,507,249 was paid. The balance of \$16,684 is payable to stockholders who could not be located at the time the dividend was paid and is being held by the Company for possible future payment.

On May 18, 2016, the Company's Board of Directors declared a semi-annual cash dividend of \$0.35 per share, which was paid on June 15, 2016 to all stockholders of record as of June 1, 2016. On November 30, 2016, the Company's Board of Directors declared a semi-annual cash dividend of \$0.40 per share, which was paid on December 19, 2016 to all stockholders of record as of December 12, 2016. In 2016 the Company declared a total of \$3,445,740 in dividends, of which \$3,436,867 was paid. The balance of \$8,873 is payable to stockholders who could not be located at the time the dividend was paid, and is being held by the Company for possible future payment.

### **Reclassification**

Certain items in the prior financial statements have been reclassified to conform to the current period presentation.



## **Marketable Securities**

Marketable securities include investments in equity and fixed income mutual funds, and government securities, all of which have a high degree of liquidity, are classified as "Available for Sale" securities, and are reported at their fair values. Unrealized gains and losses on "Available for Sale" securities are reported as accumulated other comprehensive income (loss) in stockholders' equity, net of the related tax effects. Investment income is recognized when earned. Realized gains and losses on sales of investments and declines in value judged to be other than temporary, if any, are reported in other income (loss) with cost being determined on a specific identification basis. Fair values are based on quoted market prices. The Company evaluates its investments periodically for possible impairment and reviews factors such as the length of time and extent to which fair value has been below cost basis and the Company's ability and intent to hold the investment for a period of time which may be sufficient for anticipated recovery in market value.

## **Inventories**

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. Inventory costs include material, labor and factory overhead.

## **Property, Plant and Equipment**

Property, plant and equipment are carried at cost, less accumulated depreciation. Major replacements and betterments are capitalized, while routine maintenance and repairs are expensed as incurred. Assets are depreciated under both accelerated and straight-line methods. Depreciation charged as a result of using accelerated methods was not materially different than that which would result from using the straight-line method for all periods presented. Certain factory equipment and fixtures are constructed by the Company using purchased materials and in-house labor. Such assets are capitalized and depreciated on a basis consistent with the Company's purchased fixed assets.

Estimated useful lives are as follows:

Factory equipment and fixtures	5 - 7 years
Building	40 years
Building improvements	Lesser of useful life or 20 years

## **Impairment of Long-Lived Assets**

Long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. No impairments were necessary at December 31, 2017 and 2016.

## **Other Assets (net)**

Other assets at December 31, 2017 and 2016 primarily represents an amount expended in connection with the development of the new single-dose form of RENACIDIN. The Company began amortizing these costs in the



first quarter of 2016. At December 31, 2017 and 2016 accumulated amortization for such assets amounted to \$29,648 and \$14,824, respectively.

Future amortization expense is as follows:

For the Years Ending December 31,	Amortization Expense	
2018	\$	14,824
2019		14,824
2020		14,823
<b>Total:</b>	\$	44,471

### **Fair Value of Financial Instruments**

Management of the Company believes that the fair value of financial instruments, consisting of cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses approximates their carrying value due to their short payment terms and liquid nature.

### **Concentration of Credit Risk**

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 accounts receivable credit risk has been reduced.

For the year ended December 31, 2017, two of the Company's distributors and marketing partners accounted for approximately 55% of the Company's sales during the year, and approximately 58% of its outstanding accounts receivable at year end. For the year ended December 31, 2016, the same two distributors and marketing partners accounted for a total of approximately 46% of the Company's sales during the year, and 36% of its outstanding accounts receivable at year end.

### **Vendor Concentration**

Most of the principal raw materials used by the Company consist of common industrial organic and inorganic chemicals and are available in ample supply from numerous sources. However, there are some raw materials used by the Company that are not readily available or require long lead times. The Company has six major raw material vendors that collectively accounted for approximately 88% and 85% of the raw material purchases by the Company in 2017 and 2016, respectively.

### **Income Taxes**

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to the temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply in the years



in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all the deferred tax assets will not be realized.

Uncertain tax positions are accounted for utilizing a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. As of December 31, 2017 and 2016, the Company did not have any unrecognized income tax benefits. It is the Company's policy to recognize interest and penalties related to taxes as interest expense as incurred. During the years ended December 31, 2017 and 2016 the Company did not record any tax-related interest or penalties. The Company's tax returns are subject to examination by the United States Internal Revenue Service and by the State of New York for years 2014 through 2016.

### **Research and Development**

Research and development expenses are expenditures incurred in connection with in-house research on new and existing products. It includes payroll and payroll related expenses, outside laboratory expenditures, lab supplies, and equipment depreciation.

### **Shipping and Handling Expenses**

Shipping and handling costs are classified in operating expenses in the accompanying statements of income. Shipping and handling costs were approximately \$77,000 and \$84,000 for the years ended December 31, 2017 and 2016, respectively.

### **Advertising Expenses**

Advertising expenses are expensed as incurred. During 2017 and 2016 the Company incurred approximately \$4,000 and \$25,000, respectively, in advertising expense.

### **Earnings Per Share Information**

Basic earnings per share are computed by dividing net income by the weighted average number of common shares outstanding during the year. Diluted earnings per share would include the dilutive effect of outstanding stock options, if any.

### **New Accounting Standards**

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 recognizing revenue at the time its products are shipped, and therefore adoption of the standard did not have a material impact on its financial statements, and is not expected to have a material impact in the future.

The Company anticipates it will expand its financial statement disclosures in order to comply with the disclosure requirements of the ASU beginning in the first quarter of 2018.



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

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

In February 2016, the FASB issued ASU 2016-02, "Leases", which is intended to improve financial reporting for lease transactions. This ASU will require organizations that lease assets, such as real estate and manufacturing equipment, to recognize both assets and liabilities on their balance sheet for the rights to use those assets for the lease term and obligations to make the lease payments created by those leases that have terms of greater than 12 months. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as 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.

In February 2018, the 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 has elected to adopt this amendment in the current period. As a result, a reclassification of \$34,595 has been made to retained earnings 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.

## **NOTE B - MARKETABLE SECURITIES**

The fair values of the Company's marketable securities are determined in accordance with GAAP, with fair value being defined as the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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 of the Company's marketable securities, are re-measured to fair value on a recurring basis and are valued using Level 1 inputs using quoted prices (unadjusted) for identical assets in active markets:

<u>December 31, 2017</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain/(Loss)</u>
<b>Available for sale:</b>			
<b>Fixed income mutual funds</b>	\$ <b>6,003,131</b>	\$ <b>6,113,099</b>	\$ <b>109,968</b>
<b>Equity and other mutual funds</b>	<u>1,128,532</u>	<u>1,608,469</u>	<u>479,937</u>
<b>Total marketable securities</b>	\$ <u>7,131,663</u>	\$ <u>7,721,568</u>	\$ <u>589,905</u>
<u>December 31, 2016</u>			
Available for sale:			
Fixed income mutual funds	\$ 9,339,352	\$ 9,457,286	\$ 117,934
Equity and other mutual funds	<u>612,545</u>	<u>760,723</u>	<u>148,178</u>
Total marketable securities	\$ <u>9,951,897</u>	\$ <u>10,218,009</u>	\$ <u>266,112</u>

Proceeds from the sale and redemption of marketable securities amounted to \$4,776,044 and \$2,966,859 for the years ended December 31, 2017 and 2016, respectively. Gains of \$33,297 and losses of \$1,011 were realized for the years ended December 31, 2017 and 2016, respectively.

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

Marketable securities include investments in fixed income and equity mutual funds, which are classified as "available-for-sale" securities and are reported at their fair values. Unrealized gains and losses on "available-for-sale" securities are reported as accumulated other comprehensive income in stockholder's equity, net of the related tax effects. Investment income is recognized when earned. Realized gains and losses on the sale of investments are determined on a specific identification basis.

## NOTE C – INVENTORIES

Inventories consist of the following:

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
Raw materials	\$ <b>363,739</b>	\$ 349,383
Work in process	<b>39,004</b>	24,214
Finished products	<u>937,780</u>	<u>882,216</u>
Total Inventories	\$ <u>1,340,523</u>	\$ <u>1,255,813</u>

Finished product inventories at December 31, 2017 and 2016 are stated net of a reserve of \$20,000 for slow moving and obsolete inventory.





## NOTE D – INCOME TAXES

The (benefit from) provision for income taxes consists of the following:

	Years ended December 31,	
	<u>2017</u>	<u>2016</u>
Current		
Federal	\$ 1,738,132	\$ 1,058,714
State	117	(3,501)
Total current provision for income taxes	<u>1,738,249</u>	<u>1,055,213</u>
Deferred		
Federal	(31,760)	59,712
State	---	---
Total deferred provision for income taxes	<u>(31,760)</u>	<u>59,712</u>
Total provision for income taxes	<u>\$ 1,706,489</u>	<u>\$ 1,114,925</u>

The following is a reconciliation of the Company's effective income tax rate to the Federal statutory rate (dollar amounts have been rounded to the nearest thousand):

	Years ended December 31,			
	<u>2017</u>		<u>2016</u>	
	(\$)	Tax rate	(\$)	Tax rate
Income taxes at statutory federal income tax rate of 34%	\$ 1,887,000	34.0 %	\$ 1,257,000	34.0 %
State income taxes, net of Federal benefit	---	---	(2,000)	---
Domestic Production Activities tax benefit	(160,000)	(2.9)	(104,000)	(2.8)
Nondeductible expenses	1,000	---	1,000	---
Research & development credits	(34,000)	(0.6)	(30,000)	(0.8)
Non-taxable dividends	(5,000)	(0.09)	---	---
Deferred tax asset reduction for federal tax rate change	21,000	0.4	---	---
Other, net	(4,000)	(0.1)	(7,000)	(0.2)
Provision for income taxes	<u>\$ 1,706,000</u>	<u>30.7 %</u>	<u>\$ 1,115,000</u>	<u>30.2 %</u>

During 2017 and 2016, the Company realized the tax benefits of the Domestic Production Activities deduction, which amounted to approximately 9% of net income from domestic production activities in each year.

The tax effects of temporary differences which comprise the deferred tax assets and liabilities are as follows:

	Years ended December 31,	
	<u>2017</u>	<u>2016</u>
Deferred tax assets		
Accounts receivable	\$ 4,456	\$ 5,760
Inventories	9,104	14,163
Accrued expenses	157,610	234,594
Total deferred tax assets	<u>171,170</u>	<u>254,517</u>
Deferred tax liabilities		
Depreciation on property, plant and equipment	(81,145)	(161,657)
Unrealized gain on marketable securities	(123,880)	(90,478)
Total deferred tax liabilities	<u>(205,025)</u>	<u>(252,135)</u>
Net deferred tax (liability)/asset	<u>\$ (33,855)</u>	<u>\$ 2,382</u>



## **NOTE E - BENEFIT PLANS**

### **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. Company 401(k) matching contributions were approximately \$94,000 and \$87,000 for the years ended December 31, 2017 and 2016, respectively.

The Company also makes discretionary contributions to each employee's account based on a "pay-to-pay" safe-harbor formula that qualifies the 401(k) Plan under current IRS regulations. For the years ended December 31, 2017 and 2016 the Company's Board of Directors authorized discretionary contributions in the amount of \$175,000 per year, to be allocated among all eligible employees. Employees become vested in the discretionary contributions as follows: 20% after two years of employment, and 20% for each year of employment thereafter until the employee becomes fully vested after six years of employment.

## **NOTE F - GEOGRAPHIC and OTHER INFORMATION**

The Company manufactures and markets cosmetic ingredients, personal care products, pharmaceuticals, medical lubricants, health care products, and specialty industrial products, through its Guardian Laboratories division. It also conducts research and development, primarily related to the development of new and unique cosmetic and personal care products. The Company's R&D department not only develops new products but also modifies and refines existing products, with the goal of expanding the potential markets for the Company's products. Many of the cosmetic ingredient products manufactured by Guardian, particularly its LUBRAJEL line of water-based moisturizing and lubricating gels, are currently used by many of the major multinational personal care products companies.

The Company operates in one business segment. The Company's products are separated into four distinct product categories: personal care products (including cosmetic ingredients), pharmaceuticals, medical products, and industrial products. Each product category is marketed differently. The cosmetic ingredient/personal care products are marketed through a global network of marketing partners and distributors. These marketing partners purchase product outright from the Company and provide the marketing functions for these products on behalf of the Company. They in turn receive their compensation for those efforts by re-selling those products at a markup to their customers. This enables the Company to aggressively have its products marketed without the high cost of maintaining its own in-house marketing staff. The Company has written marketing arrangements with only one of its global distributors, ASI, and that contract renews every two years unless cancelled for any reason by either party at least 90 days prior to the expiration of the two-year marketing period in effect at that time. The current marketing period with ASI ends on December 31, 2019. The Company's other marketing partners are not under any contractual obligation to market the Company's personal care products, and the Company has the ability to cancel those marketing arrangements at any time upon reasonable notice. All sales of the Company's personal care products are final other than product later determined to be defective, and the Company does not make any sales on consignment.

No prior regulatory approval is needed by the Company to sell any products other than its pharmaceutical products. The end users of its products may or may not need regulatory approvals, depending on the intended claims and uses of those products.

The pharmaceutical products are two urological products that are sold to end users primarily through distribution agreements with the major drug wholesalers. For these products, the Company does the marketing, and the drug wholesalers supply the product to the end users, such as hospitals and pharmacies. These products are drug products that required the Company to obtain regulatory approval before marketing.



The medical products are not pharmaceutical products. They consist primarily of medical lubricants, which are marketed by the Company directly to manufacturers that incorporate them into urologic catheters and other medical devices and products that they sell. These products are distinguished from the pharmaceutical products in that, unlike the pharmaceutical products, the Company is not required to obtain regulatory approval prior to marketing these products. Approvals are the responsibility of the company that markets the medical device. However, the Company is responsible for manufacturing these products in accordance with current Good Manufacturing Practices for medical devices.

The industrial products are also marketed by the Company directly to manufacturers, and generally do not require that the Company obtain regulatory approval. However, the manufacturers of the finished products may have to obtain such regulatory approvals before marketing these products.

The following tables present the significant concentrations of the Company's sales. Although a significant percentage of Customer A's purchases from the Company are sold to foreign customers, in table "b" below all sales to Customer A are included in "United States" sales revenue because all shipments to Customer A are delivered to Customer A's warehouses in the U.S.

In addition, there are three customers for the Company's medical products that take delivery of their shipments 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 included in the "United States" revenue number in the table below. Approximately 80% of the Company's domestic sales of medical products in 2017, and 70% in 2016, 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.

**(a) Net Sales**

	<u>Years ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Personal Care	\$ 6,868,227	\$ 4,916,630
Medical	2,424,439	2,624,672
Pharmaceutical	3,987,076	3,443,215
Industrial and other	<u>154,718</u>	<u>159,945</u>
	13,434,460	11,144,462
Less: Discounts and allowances	<u>(466,255)</u>	<u>(367,595)</u>
Net Sales	<u>\$ 12,968,205</u>	<u>\$ 10,776,867</u>

**(b) Geographic Information (Gross Sales)**

	<u>Years ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
United States	\$ 10,900,284	\$ 8,699,491
Other countries	<u>2,534,176</u>	<u>2,444,971</u>
	<u>\$ 13,434,460</u>	<u>\$ 11,144,462</u>

**(c) Sales to Major Customers**

	<u>Years ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Customer A	\$ 5,350,392	\$ 3,457,682
Customer B	1,750,167	1,628,905
All other customers	<u>6,333,901</u>	<u>6,057,875</u>
	<u>\$ 13,434,460</u>	<u>\$ 11,144,462</u>



## NOTE G – COMPREHENSIVE INCOME

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

<u>Changes in Accumulated Other Comprehensive Income</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Beginning balance - net of tax	\$ 175,634	\$ 72,361
Unrealized gain on marketable securities – net of tax	222,499	104,284
Reclassification of tax effect on unrealized gain on marketable securities due to federal tax rate change	34,595	---
Realized gain (loss) on sale of marketable securities	<u>33,297</u>	<u>(1,011)</u>
Ending balance - net of tax	\$ <u>466,025</u>	\$ <u>175,634</u>

## NOTE H - ACCRUED EXPENSES

Accrued expenses at December 31, 2017 and 2016 consist of:

	<u>2017</u>	<u>2016</u>
Bonuses	\$ 200,000	\$ 200,000
Distribution fees	254,863	225,879
Payroll and related expenses	152,903	151,653
Annual report expenses	62,510	63,447
Audit fee	43,268	54,868
Reserve for outdated material	127,768	101,177
Sales rebates	12,000	23,393
Insurance	---	9,381
Other	<u>28,015</u>	<u>18,530</u>
Total accrued expenses	\$ <u>881,327</u>	\$ <u>848,328</u>

## NOTE I – SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION AND NON-CASH INVESTING AND FINANCING ACTIVITIES

Cash payments for income taxes were \$1,600,000 and \$1,050,000 for the years ended December 31, 2017 and 2016, respectively.

The Company has a number of unconverted shares of one of its previous corporate entities, Guardian Chemical Corporation (“Guardian”), that would convert to approximately 11,732 shares of United-Guardian, Inc. common stock if all of the remaining holders of those Guardian shares converted their Guardian stock to United-Guardian stock. Since the early 1990’s, the Company has been paying accumulated dividends directly to those shareholders as those shares were converted, while at the same time its transfer agent was holding duplicate



funds to cover those same payments (as well as future payments for Guardian shares that had not yet been converted). In September 2015 it was agreed that those duplicate funds would be returned to the Company, and the Company recorded a receivable from the transfer agent in the amount of \$120,848. Of that amount, \$21,894 was added to retained earnings to account for the amount that had been previously exchanged and paid, and the balance of \$98,954 will continue to be accounted for as a potential liability in the event that one or more of the holders of that Guardian stock can be located and request conversion of their Guardian shares, in which case the accumulated dividends will be paid to them and the liability reduced accordingly. Payment of the amount owed to the Company by its transfer agent was received in October 2015. The Company is presently researching its options in regard to the distribution of the funds it is continuing to hold, in the event the remaining holders of Guardian stock cannot be located. The Company will continue to accumulate a dividend payable on the above shares as dividends are declared. The Company accrued an additional \$16,684 and \$8,873, during 2017 and 2016 respectively, on these shares.

## **NOTE J - RELATED PARTY TRANSACTIONS**

During each of the years ended December 31, 2017 and 2016 the Company paid to Bonamassa, Maietta, and Cartelli, LLP, \$18,000 and \$21,500, respectively, for accounting and tax services. Lawrence Maietta, a partner in Bonamassa, Maietta, and Cartelli, LLP, is a director of the Company.

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

## **Critical Accounting Policies**

The Company's financial statements have been prepared in accordance with U.S. generally accepted accounting principles. Preparation of financial statements requires the Company to make estimates and assumptions affecting the reported amounts of assets, liabilities, revenues, and expenses and the disclosure of contingent assets and liabilities. The Company uses its historical experience and other relevant factors when developing its estimates and assumptions, which are continually evaluated. Note A, Nature of Business and Summary of Significant Accounting Policies, of the Notes to Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K includes a discussion of the Company's significant accounting policies. The following accounting policies are those that the Company considers critical to an understanding of the financial statements because their application places the most significant demands on the Company's judgment. The Company's financial results might have been different if other assumptions had been used or other conditions had prevailed.

## **Marketable Securities**

The Company classifies its marketable securities as available-for-sale at the time of purchase and re-evaluates such designation as of each balance sheet date. The Company's marketable securities include investments in equity and fixed income mutual funds, and government securities. The Company's marketable securities are reported at fair value with the related unrealized gains and losses included in accumulated other comprehensive income (loss), a component of stockholders' equity. Realized gains or losses on mutual funds are determined using the average cost method, while realized gains or losses on government securities and bonds are determined using the specific-identification method. Realized gains or losses on the Company's marketable securities are insignificant for the years ended December 31, 2017 and 2016. The Company evaluates its investments periodically for possible other-than-temporary impairment by reviewing factors such as the length of time and extent to which fair value had been below cost basis, the financial condition of the issuer and the Company's ability and



intent to hold the investment for a period of time which may be sufficient for anticipated recovery of market value. The Company would record an impairment charge to the extent that the cost of the available-for-sale securities exceeds the estimated fair value of the securities and the decline in value is determined to be other-than-temporary. During 2017 and 2016 the Company did not record an impairment charge regarding its investment in marketable securities because management believes, based on its evaluation of the circumstances, that the decline in fair value below the cost of certain of the Company's marketable securities is temporary.

### **Revenue Recognition**

The Company recognizes revenue when products are shipped, title and risk of loss pass to customers, persuasive evidence of a sales arrangement exists, and collections are reasonably assured. Any allowances for returns are taken as a reduction in sales within the same period the revenue is recognized. Such allowances are based on historical experience as well as other factors that, in the Company's judgment, could reasonably be expected to cause sales returns or doubtful accounts to differ from historical experience.

### **Accounts Receivable Allowance**

The Company performs ongoing credit evaluations of the Company's customers and adjusts credit limits, as determined by a review of current credit information. The Company continuously monitors collection and payments from customers and maintains an allowance for doubtful accounts based upon historical experience, the Company's anticipation of uncollectible accounts receivable and any specific customer collection issues that have been identified. While the Company's credit losses have historically been low and within expectations, the Company may not continue to experience the same credit loss rates that have historically been attained. The receivables are highly concentrated in a relatively small number of customers. Therefore, a significant change in the liquidity, financial position, or willingness to pay timely, or at all, of any one of the Company's significant customers would have a significant impact on the Company's results of operations and cash flows.

### **Inventory Valuation Allowance**

In conjunction with the Company's ongoing analysis of inventory valuation, management constantly monitors projected demand on a product-by-product basis. Based on these projections, management evaluates the levels of write-downs required for inventory on hand and inventory on order from contract manufacturers. Although the Company believes that it has been reasonably successful in identifying write-downs in a timely manner, sudden changes in buying patterns from customers, either due to a shift in product interest and/or a complete pull back from their expected order levels, may result in the recognition of larger-than-anticipated write-downs.

## **Results of Operations**

Year ended December 31, 2017 compared with the year ended December 31, 2016:

### **Sales**

Sales increased from \$11,144,462 in 2016 to \$13,434,460 in 2017, an increase of \$2,289,998 (approximately 21%). The overall increase was due primarily to increases in sales of the Company's personal care products to its primary distributor, ASI, as well as an increase in sales of the Company's pharmaceutical products, primarily RENACIDIN. Those increases were partially offset by decreases in sales of the Company's industrial and medical (non-pharmaceutical) products.



The net increase in sales was the result of the following specific changes in sales in the different product categories:

(a) **Personal care products:**

Sales of the Company's personal care products, including cosmetic ingredients, increased from \$4,916,630 in 2016 to \$6,868,227 in 2017, an increase of \$1,951,596 (approximately 40%). The increase was attributable primarily to an increase in sales of the Company's LUBRAJEL products to ASI, the Company's largest marketing partner. Sales to ASI increased by \$1,892,710 (approximately 55%) from \$3,457,682 in 2016 to \$5,350,392 in 2017. Aggregate sales to the Company's other marketing partners increased from \$1,422,892 in 2016 to \$1,464,053 in 2017 (approximately 3%). Sales in France, Italy and Korea increased in the aggregate by \$86,203 (approximately 8%) from \$1,059,537 in 2016 to \$1,145,740 in 2017, while aggregate sales to the Company's distributors in the UK and Switzerland decreased by \$45,042 (approximately 12%) from \$363,355 in 2016 to \$318,313 in 2017.

Although a significant percentage of ASI's purchases from the Company are sold to foreign customers, all sales to ASI are considered U.S. 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 2017 approximately 72% of ASI's sales were to customers in foreign countries, compared with 70% in 2016. ASI's largest foreign market in both 2017 and 2016 was China, which accounted for approximately 55% of ASI's sales in 2017 and 53% in 2016.

The increase in sales to ASI was primarily the result of an increase in ASI's sales of one of the Company's LUBRAJEL products in China. ASI's sales in China decreased from the fourth quarter of 2015 until September 2016 as a result of (a) a regulatory issue in China that was unrelated to LUBRAJEL OIL but which required the reformulation of some of the products that contained LUBRAJEL OIL; and (b) ASI continuing to purchase LUBRAJEL OIL at normalized levels despite the negative impact of that regulatory issue on product demand, thereby resulting in a short term overstocking of LUBRAJEL OIL in China. With the regulatory issue having been addressed, and with products that had been affected by the regulatory issue coming back on the market during 2016, the overstock situation in China was gradually corrected, and in September 2016 ASI resumed its purchases of products intended for sale in China, and its purchases for China have been relatively steady since that time.

Sales of the Company's products in Europe increased slightly in 2017 compared with 2016. There continues to be more competition in the European marketplace than there had been in previous years due to Asian competitors selling imitations of the Company's product at much lower prices. However, with some European economies improving, and the U.S. dollar having weakened significantly during 2017 and possibly weakening further in the next few years, the Company's products may become more competitive, especially in Europe. In addition, the Company from time to time offers additional volume discounts and more aggressive pricing in order to maintain and increase sales and bring in new customers. While this may result in lower margins on certain sales, the Company believes that the additional volumes that will be generated by this policy will more than offset the lower profit margins on those sales.

(b) **Pharmaceuticals:**

Sales of the Company's two pharmaceutical products, RENACIDIN and CLORPACTIN, together increased by \$542,220 (approximately 16%), from \$3,444,848 in 2016 to \$3,987,068 in 2017, with RENACIDIN accounting for most of the increase. Sales of RENACIDIN increased by \$524,766 (approximately 18%) from \$2,900,130 in 2016 to \$3,424,896 in 2017, and accounted for approximately 25% of the Company's sales in 2017, as compared with 26% in 2016. The increase was due to the introduction in April 2016 of



the Company's new 30mL single-dose form of the product. The new single-dose unit was engineered to dispense the product directly into an indwelling catheter, eliminating the need to use a separate syringe to extract a small amount of product from the Company's previous 500mL glass bottle. The Company is optimistic that this new, more user-friendly package will enable it to continue to increase its sales of RENACIDIN. The Company recently launched a new web site dedicated to RENACIDIN, and is working with a consultant to increase both patient and physician awareness of the product.

The increase in sales of the Company's pharmaceutical products was partially offset by an increase of \$98,660 (approximately 27%) in allowances for distribution fees, product returns, chargebacks paid to the U.S. Department of Veterans Affairs, and rebates paid for Medicaid- and Medicare-related sales. This increase was primarily due to the higher sales of RENACIDIN.

(c) **Medical (non-pharmaceutical) products:**

Sales of the Company's medical products decreased by \$200,232 (approximately 8%) from \$2,624,671 in 2016 to \$2,424,439 in 2017. The decrease was primarily the result of a \$186,084 (21%) decrease in sales of LUBRAJEL RR, which was partially offset by increases in sales of some of the Company's other medical products. The large percentage decrease in sales of LUBRAJEL RR was primarily due to lower sales to two customers, both of which have purchasing patterns which can vary widely from year to year. One of those customers also overstocked product in 2016, leading to reduced purchases in 2017.

(d) **Industrial and other products:**

Sales of the Company's industrial products, as well as other miscellaneous products, decreased by \$5,227 (approximately 3%) from \$159,945 in 2016 to \$154,718 in 2017. The decrease is due to normal fluctuations in customer ordering patterns.

**Gross Profit on Sales**

Gross profit increased to approximately 59% in 2017 from 55% in 2016. The increase was primarily the result of an increase in the sales of the Company's higher-margin LUBRAJEL products in 2017 compared to 2016.

**Operating Expenses**

Operating expenses decreased by \$67,673 in 2017 compared with the prior year, decreasing from \$1,852,833 in 2016 to \$1,785,160 in 2017. The decrease was mainly attributed to decreases in payroll, and payroll-related expenses.

**Research and Development Expenses**

Research and development expenses amounted to \$651,828 and \$646,079 in 2016 and 2017 respectively. The decrease of \$5,749 was primarily related to a decrease in payroll and payroll related expenses.

**Investment Income**

Investment income (net) increased by \$8,660 (approximately 3%) from \$306,505 in 2016 to \$315,165 in 2017. The net increase was due to an increase in investment income from both stock and bond mutual funds, and realized gains from the sales of some of the Company's mutual funds.





### **Provision for Income Taxes**

The provision for income taxes increased by \$591,564 (approximately 53%) from \$1,114,925 in 2016 to \$1,706,489 in 2017. This increase was mainly due to an increase in income from operations. The Company's effective income tax rate was approximately 30% in both 2017 and 2016, and is lower than the federal statutory rate of 34% primarily due to the additional tax deduction for domestic production activities as well as the utilization of research and development tax credits.

### **Liquidity and Capital Resources**

Working capital decreased from \$12,668,221 at December 31, 2016 to \$10,428,139 at December 31, 2017, a decrease of \$2,240,082 (approximately 18%). The current ratio decreased from 13.1 to 1 at December 31, 2016 to 8.3 to 1 at December 31, 2017. The decreases in working capital and the current ratio were mainly due to a decrease in marketable securities and an increase in accounts payable.

Accounts receivable (net of allowance for doubtful accounts) as of December 31, 2017 increased by \$307,418 (approximately 19%) from \$1,597,997 in 2016 to \$1,905,415 in 2017. The receivables turnover, or Days Sales Outstanding, for 2017 was 49 days, compared with 42 days in 2016. The increase was mainly the result of higher accounts receivables in the latter part of 2017 due to an increase in sales in the third and fourth quarter of 2017. The Company has bad debt reserves of \$21,220 and \$16,943 for 2017 and 2016, respectively, and believes that the net balance of its accounts receivable is fully collectable as of December 31, 2017.

The Company generated cash from operations of \$3,992,287 in 2017 compared with \$2,290,444 in 2016. The increase in 2017 was primarily due to an increase in net income and an increase in accounts payable.

Net cash provided by investing activities was \$2,815,382 for the year ended December 31, 2017 compared with cash used in investing activities of \$490,235 for the year ended December 31, 2016. This increase in net cash provided was mainly due to an increase in proceeds from sales of marketable securities in 2017 compared with 2016.

Cash used in financing activities was \$6,507,249 and \$3,436,867 during the years ended December 31, 2017 and 2016, respectively. The increase was due to the payment of higher dividends in 2017 compared with 2016.

The Company believes that its working capital is sufficient to support its operating requirements for the next fiscal year. The Company's long-term liquidity position will be dependent upon its ability to generate sufficient cash flow from profitable operations. The Company has no material commitments for future capital expenditures.

### **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.

### **New Accounting Pronouncements**

See Note "A" to the financial statements regarding new accounting pronouncements.



## Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

### Market Information

The Common Stock of the Company has traded on the NASDAQ Global Market since March 16, 2009, under the symbol "UG". From December 1, 2008 through March 13, 2009, following the merger of the American Stock Exchange with the New York Stock Exchange, the Company's Common Stock was traded on the NYSE Amex Stock Exchange under the same symbol. Prior to December 1, 2008 its stock traded on the American Stock Exchange under the same symbol.

The following table sets forth the high and low closing sale prices of the shares of Common Stock, as reported by NASDAQ, for the period January 1, 2016 to December 31, 2017. The quotations represent prices between dealers and do not include retail markup, markdown or commission:

<u>Quarters</u>	<u>Year Ended December 31, 2017</u>		<u>Year Ended December 31, 2016</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
First (1/1 - 3/31)	\$ 15.85	\$ 14.60	\$ 22.78	\$ 18.71
Second (4/1 - 6/30)	17.75	13.75	20.64	16.07
Third (7/1 - 9/30)	19.50	15.10	16.50	13.66
Fourth (10/1 - 12/31)	20.65	15.25	16.90	14.36

### Holders of Record

As of February 23, 2018, there were 706 holders of record of Common Stock.

### Cash Dividends

On May 17, 2017, the Company's Board of Directors declared a semi-annual cash dividend of \$0.42 per share, which was paid on June 12, 2017 to all stockholders of record as of May 30, 2017. On November 29, 2017, the Company's Board of Directors declared a semi-annual cash dividend of \$0.50 per share, and an additional special dividend of \$0.50 per share, for a total dividend of \$1.00 per share, which was paid on December 18, 2017 to all stockholders of record as of December 11, 2017.

On May 18, 2016, the Company's Board of Directors declared a semi-annual cash dividend of \$0.35 per share, which was paid on June 15, 2016 to all stockholders of record as of June 1, 2016. On November 30, 2016, the Company's Board of Directors declared a semi-annual cash dividend of \$0.40 per share, which was paid on December 19, 2016 to all stockholders of record as of December 12, 2016.



**UNITED-GUARDIAN, Inc.**

## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of United-Guardian, Inc.  
Hauppauge, New York

### Opinion on the Financial Statements

We have audited the accompanying balance sheets of United-Guardian, Inc. (the Company) as of December 31, 2017 and 2016, and the related statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2017, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ RAICH ENDE MALTER & CO. LLP

We have served as the Company's auditor since 2016.

Melville, New York  
March 21, 2018

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### Registrar and Transfer Agent

Continental Stock Transfer & Trust Company  
1 State Street, 30<sup>th</sup> Floor • New York, NY 10004

### Auditors

Raich Ende Malter & Co. LLP  
Melville, NY

### Legal Counsel

Jay Weil, Esq.  
Wayne, NJ

### Main Office and Plant

230 Marcus Blvd. • Hauppauge, NY 11788

### Mailing Address

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Upon written request, a copy of the Company's most recent Annual Report on Form 10-K will be furnished without charge. A fee will be charged for copies of any exhibits attached to such report. Contact: Corporate Secretary, United-Guardian, Inc., P.O. Box 18050, Hauppauge, NY 11788.



**UNITED-GUARDIAN, INC.**  
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