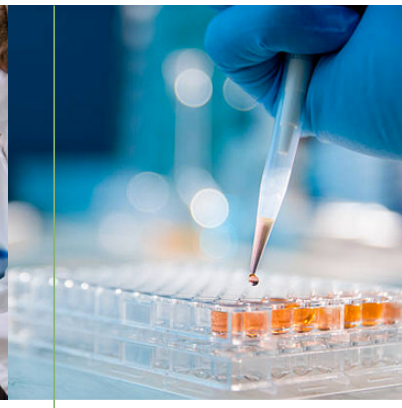
UNITED-GUARDIAN, INC.

Excellence Through Innovation®



Health Care Products

Cosmetic Ingredients

Pharmaceuticals

Specialty Industrial Products

Annual Report 2018

UNITED-GUARDIAN, INC.

Officers and Directors

KENNETH H. GLOBUS
President & Chief Executive Officer
Chairman of the Board of Directors
General Counsel

ROBERT S. RUBINGER
Executive Vice President, Secretary,
Director of Product Development
Director

PETER A. HILTUNEN
Vice President
Production Supervisor
Director of Plant Operations

ANDREA J. YOUNG
Controller
Treasurer
Chief Financial Officer

ARTHUR M. DRESNER
Director; Counsel to the law firm of
Duane Morris LLP
New York, NY

LAWRENCE F. MAIETTA
Director; Partner in the accounting firm of
Bonamassa, Maietta & Cartelli, LLP
Brooklyn, NY

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

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

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® 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. The company currently relies primarily on proprietary manufacturing methods and product formulations, which are protected as trade secrets, rather than patent protection, thereby eliminating the public disclosure required to obtain limited-duration patent protection. It has also received ISO 9001:2015 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.

2018 ANNUAL REPORT

to the stockholders of

UNITED-GUARDIAN, INC.

April 13, 2019

Dear Stockholder,

This past year was a very positive one, with both sales and income increasing over 2017. Gross sales for the year rose by 8% from $13,434,460 to $14,458,055, primarily due to a significant increase in sales of our cosmetic ingredients. Net income showed even larger growth, increasing by 13% from $3,844,290 ($0.84 per share) in 2017 to $4,352,331 ($0.95 per share) in 2018.

There were two main areas of revenue growth in 2018, the most significant being an increase in sales of our cosmetic ingredients. This increase was attributable primarily to an increase in purchases by Ashland Specialty Ingredients, our largest marketing partner, which continued to grow our sales in China despite the ongoing trade dispute between the U.S. and China. When tariffs were imposed last year by the Trump administration our products were initially included on one of China's retaliatory tariff lists, which would have made an already competitive market in China that much more difficult for us. However, just before those tariffs were to go into effect our product category was removed from the list, and as of now our products are not subject to those additional tariffs. The market for our products in China has grown steadily over the past few years, and currently accounts for about half of Ashland's purchases from us. It is a very important market for us, and one we hope that we can continue to grow as long as the trade situation with China is resolved and no additional tariffs are imposed.

While it was very rewarding to be able to increase our sales in Asia despite the uncertain tariff situation, we continue to deal with a very competitive market for our cosmetic ingredients in both Asia and Europe, with strong competition from lower-priced Asian competitors. We regularly evaluate our marketing efforts in those geographic areas and, when necessary, adjust prices to both retain current business and to bring in new customers who might be using one of the competitive products. The strong U.S. dollar has made our products more expensive for customers in these areas, and that will continue to be an additional challenge for us. While there are times when we are able to match some of our competitor's lower prices, there are also times when doing so wouldn't make sense for us based on how low the profit margin would be. Despite the disparity between our price and the prices of some of our competitors we still believe that we have some advantages that make our products more attractive than some of those lower-cost products, including a more extensive product line that gives customers many more choices than some of our competitors, and a long history of reliability and expertise in providing high quality cosmetic ingredients. We continue to believe that many producers of cosmetic products understand the value of that, and are willing to pay a little more for our product. We will continue to work closely with our marketing partners to ensure that we remain as competitive as possible.

The other area of revenue growth was our pharmaceutical product sales, which grew by 13% last year, with our Renacidin® Irrigation accounting for most of the increase. Those of you who have been stockholders of ours for a while know that in April 2016 we began selling our new, convenient 30mL single-dose form of that product, which was developed to dispense the product directly into a patient's indwelling catheter, thereby eliminating the need to use a separate syringe. In the second half of 2018 we launched a new web site dedicated to Renacidin (www.renacidin.com) to increase both patient and physician awareness of the product. Launching the web site was just the first step in this new marketing campaign, and was followed by efforts on the part of our internet marketing consultants to ensure that information about our product received priority positioning when patients and others searched for medical terms relevant to our product, such as "catheter care". The next step was to develop "pop-up" ads that would appear when certain search terms were used. Those ads have already started running, and over the next few months we expect to see an increase in the frequency in which those ads will appear.

Unlike retail or direct-to-consumer sales, our pharmaceutical business is not one where we would expect to see immediate results from marketing efforts like this, since a patient who sees the ad first has to get his or her doctor to prescribe it, then the pharmacy has to order it from one of the drug wholesalers, and only when that drug wholesaler increases its purchases from us would we begin to see an increase in sales. Our expectation is that by mid-2019 we will have enough information to be able to judge how effective this internet marketing effort has been, and at that time we will decide whether the effort should be continued as is, modified, or discontinued. We believe there are still significant numbers of patients and physicians who are not aware of our product, and we hope to change that with this new internet marketing campaign.

While we continue our efforts to expand the sales of our current product line we are also developing new products that we hope will generate additional revenue in future years. Our focus over the past few years has been on expanding our line of "natural" products, and we believe that the natural cosmetic market will continue to be a growing market for us. The first product that we developed for this market, our "Lubrajel Natural", has been available for a few years. Sales of that product are still small, but we have tried to take what we learned from the development of that product and use it to bring out additional products that we hope will have greater success. As a result, working jointly with Ashland we developed "Lubrajel Marine", which is a Lubrajel formulation that was developed using ingredients sourced from marine vegetation. This product was received very well by potential customers, and we are gradually seeing an increase in sales. Like the original Lubrajel Natural, as well as the other "natural" products that we are developing, the Lubrajel Marine has received COSMOS (Cosmetic Organic Standard) certification, which confirms that it can be used by formulators to develop "natural" or "organic" products.

In addition to the Lubrajel Natural and Lubrajel Marine we are working on a number of other products for the cosmetic ingredient market, focusing primarily on the "natural" market but not restricting it to that. These products are in different stages of development, and there is no guarantee that our development efforts will be successful. With that in mind, here are some of the other products on which we are currently working:

- **LUBRAJEL OIL NATURAL:** This would be the third product in the "natural" line of Lubrajel products. It is being developed to provide a similar feel, viscosity, and both lubricating and moisturizing properties to our very popular Lubrajel Oil, but uses only ingredients that are acceptable for use in "natural" or "organic" cosmetic products. There are two formulations of this product that are currently being evaluated by Ashland and undergoing hydration testing. Once we determine the better of the two formulations we will initiate the marketing of this product.

- **LUBRAJEL OIL PF**: Similar to our original Lubrajel Oil, this "PF" (preservative-free) version was developed to enable formulators to choose their own preservative systems. While slightly different from our current Lubrajel Oil, it offers similar lubricity. As with the Lubrajel Oil Natural, we are awaiting hydration testing by Ashland to determine the next steps in the product's development.

- **LUBRAJEL TERRA**: This product is based on polysaccharides derived from soil-based plant materials and, like the other products in the "natural" line, uses only ingredients deemed "natural". Ashland has been given a preliminary formulation for this product for testing, and is very pleased with the feel it provides.

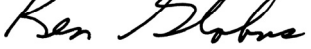
- **LUBRAJEL HONEY**: This product is of particular interest to our marketing partner handling the Chinese market. Honey is believed to provide many skin-enhancing and health benefits, and we believe that the combination of honey and Lubrajel will result in a product that could be very attractive to formulators in the skincare market in China. This product is still in the early stages of development.

Some other products that are in very early stages of development and are not yet ready to be evaluated by our marketing partners are: **Silk Peptide**, which is being developed to provide a silky feel to skincare products while still providing hydration; **Jojoba Ester,** which provides a silicone-like feel in a water-soluble gel; **Oil/Wax Hydration**, which is an oil-phase texture ingredient that will also provide hydration; and **Moisture-Lock Lubrajel**, which would be a Lubrajel formulation that provides 24-hours of skin hydration.

Based on the strong year we had in 2018, and taking into account any foreseeable need for capital, the Board of Directors, at its meeting in November, declared a year-end dividend of $0.55 per share, bringing the total dividends paid in 2018 to $1.05. This is the 23rd consecutive year that we have paid a dividend. Once again we are very pleased to be in a position to share 2018's positive results with our stockholders, and continue to believe that doing so is in the best interests of both the company and its stockholders.

We have had a good start to the new year, with strong first quarter sales, and are excited about the many new products currently under development. We are optimistic that with the continued assistance of our marketing partners we will be able to continue to increase sales, and are looking forward to another profitable year in 2019.

UNITED-GUARDIAN, INC.



Ken Globus
President

UNITED-GUARDIAN, INC.

STATEMENTS OF INCOME

	Years ended December 31,	
	2018	2017
Sales:		
Gross sales	$ 14,458,055	$ 13,434,460
Sales allowances and returns	(688,654)	(466,255)
Net sales	13,769,401	12,968,205
Costs and expenses:		
Cost of sales	5,667,295	5,301,352
Operating expenses	2,122,746	1,785,160
Research and development	399,517	646,079
Total costs and expenses	8,189,558	7,732,591
Income from operations	5,579,843	5,235,614
Other (expense) income:		
Investment income	231,986	281,868
Net (loss) gain on marketable securities	(333,138)	33,297
Loss on trade-in of equipment	(12,837)	----
Total other (expense) income	(113,989)	315,165
Income before provision for income taxes	5,465,854	5,550,779
Provision for income taxes	1,113,523	1,706,489
Net income	$ 4,352,331	$ 3,844,290
Earnings per common share (basic and diluted)	$ 0.95	$ 0.84
Weighted average shares (basic and diluted)	4,594,319	4,594,319

STATEMENTS OF COMPREHENSIVE INCOME

	Years ended December 31,	
	2018	2017
Net income	$ 4,352,331	$ 3,844,290
Other comprehensive income:		
Unrealized gain on marketable securities	---	323,793
Income tax expense related to other comprehensive income	---	(67,997)
Total other comprehensive income, net of tax	---	255,796
Total comprehensive income	$ 4,352,331	$ 4,100,086

See Notes to Financial Statements

UNITED-GUARDIAN, INC.

BALANCE SHEETS

ASSETS

	December 31, 2018	December 31, 2017
Current assets:		
Cash and cash equivalents	$ 550,135	$ 724,721
Marketable securities	7,622,196	7,721,568
Accounts receivable, net of allowance for doubtful accounts of $16,895 in 2018 and $21,220 in 2017	1,672,567	1,905,415
Inventories (net)	1,482,151	1,340,523
Prepaid expenses and other current assets	159,364	157,964
Prepaid income taxes	200,687	331
Total current assets	11,687,100	11,850,522
Property, plant, and equipment:		
Land	69,000	69,000
Factory equipment and fixtures	4,406,174	4,363,978
Building and improvements	2,801,582	2,793,402
Total property, plant and equipment	7,276,756	7,226,380
Less accumulated depreciation	6,448,831	6,283,493
Total property, plant, and equipment, net	827,925	942,887
Other assets (net)	29,647	59,471
TOTAL ASSETS	$ 12,544,672	$ 12,852,880

See Notes to Financial Statements

UNITED-GUARDIAN, INC.

BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31,	
	2018	2017
Current liabilities:		
Accounts payable	$ 186,797	$ 354,285
Accrued expenses	1,040,635	881,327
Income taxes payable	-----	55,848
Dividends payable	138,719	130,923
Total current liabilities	1,366,151	1,422,383
Deferred income taxes (net)	253,583	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 December 31, 2018 and 2017.	459,432	459,432
Accumulated other comprehensive income	-----	466,025
Retained earnings	10,465,506	10,471,185
Total stockholders' equity	10,924,938	11,396,642
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 12,544,672	$ 12,852,880

See Notes to Financial Statements

UNITED-GUARDIAN, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended December 31, 2018 and 2017

	Common stock Shares	Common stock Amount	Accumulated other comprehensive income	Retained earnings	Total
Balance, January 1, 2017	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 but not paid	---	---	---	(16,684)	(16,684)
Dividends declared and paid	---	---	---	(6,507,249)	(6,507,249)
Balance, December 31, 2017	4,594,319	459,432	466,025	10,471,185	11,396,642
Reclassification of accumulated unrealized gains on marketable securities in accordance with ASU 2016-01 (See Note B)	---	---	(466,025)	466,025	---
Net income	---	---	---	4,352,331	4,352,331
Dividends declared but not paid	---	---	---	(7,796)	(7,796)
Dividends declared and paid	---	---	---	(4,816,239)	(4,816,239)
Balance, December 31, 2018	4,594,319	$ 459,432	$ ---	$ 10,465,506	$ 10,924,938

See Notes to Financial Statements

UNITED-GUARDIAN, INC.

STATEMENTS OF CASH FLOWS

	Years ended December 31, 2018	2017
Cash flows from operating activities:		
Net income	$ 4,352,331	$ 3,844,290
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	191,942	200,677
Unrealized loss on marketable securities	337,342	-----
Realized gain on sales of marketable securities	(4,204)	(33,297)
Loss on trade-in of equipment	12,837	----
Bad debt (recovery) expense	(4,325)	4,277
Decrease (increase) in operating assets:		
Accounts receivable	237,173	(311,695)
Inventories	(141,628)	(84,710)
Prepaid expenses and other current assets	(1,400)	(37,644)
Prepaid income taxes	(200,356)	82,401
Other assets	15,000	----
(Decrease) increase in operating liabilities:		
Accounts payable	(167,488)	271,464
Income taxes payable	(55,848)	55,848
Accrued expenses	159,308	32,999
Dividends payable	---	(563)
Deferred income taxes	219,728	(31,760)
Net cash provided by operating activities	4,950,412	3,992,287
Cash flows from investing activities:		
Acquisitions of property, plant and equipment	(74,993)	(38,149)
Purchases of marketable securities	(8,256,570)	(1,922,513)
Proceeds from sales of marketable securities	8,022,804	4,776,044
Net cash (used in) provided by investing activities	(308,759)	2,815,382
Cash flows from financing activities:		
Dividends paid	(4,816,239)	(6,507,249)
Net cash used in financing activities	(4,816,239)	(6,507,249)
Net (decrease) increase in cash and cash equivalents	(174,586)	300,420
Cash and cash equivalents, beginning of year	724,721	424,301
Cash and cash equivalents, end of year	$ 550,135	$ 724,721
Non-cash investing activities:		
Cost of equipment traded in (net)	39,837	----
Supplemental disclosure of cash flow information		
Taxes paid	1,150,000	1,600,000
Supplemental disclosure of non-cash dividends payable	$ 7,796	$ 16,684

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% of the Company's sales for the years ended December 31, 2018 and December 31, 2017. LUBRAJEL accounted for approximately 67% and 69% of the Company's sales for the years ended December 31, 2018 and December 31, 2017, respectively, and RENACIDIN accounted for approximately 27% and 25% of the Company's sales for the years ended December 31, 2018 and December 31, 2017, respectively.

Use of Estimates

In preparing financial statements in conformity with a Generally Accepted Accounting Principles in the United States of America ("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 revenue and expenses during the reporting period. Actual results could differ from those estimates. Such estimated items include the allowance for bad debts, accrued distribution fees, outdated material returns, 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 the Company's 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, the Company considers many factors in estimating this reserve, including historical data, experience, customer types and credit worthiness, and economic trends. From time to time, the Company adjusts its assumptions for anticipated changes in any of these or other factors expected to affect collectability.

Revenue Recognition

Effective January 1, 2018, the Company adopted ASC Topic 606, "Revenue from Contracts with Customers", using the modified retrospective method. Results for the year ended December 31, 2018 are presented under Topic 606, while prior period amounts have not been adjusted and continue to be reported in accordance with our historic accounting under Topic 605. There was no material impact on the Company's financial statements as a result of the Company's adoption of this new revenue standard, and there was no adjustment to beginning retained earnings on January 1, 2018. The Company continues to recognize revenue at the time its products are shipped.

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 and services. The Company's principal source of revenue is product sales.

The Company's gross revenues are subject to a variety of deductions, which generally are estimated and recorded in the same period that the revenues are recognized. Such variable consideration includes chargebacks from the United States Department of Veterans Affairs ("VA"), rebates, distribution fees, and sales returns. These deductions represent estimates of the related obligations and, as such, knowledge and judgment is required when estimating the impact of these revenue deductions on gross sales for a reporting period.

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 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 December 31, 2018 and 2017, the allowance for doubtful accounts receivable amounted to $16,895 and $21,220, respectively. Prompt-pay discounts are offered to some customers however, due to 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 its 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:

	Year ended December 31,	
	2018	2017
Personal care	$ 7,529,487	$ 6,868,227
Pharmaceutical	4,516,537	3,987,076
Medical	2,238,813	2,424,439
Industrial and other	173,218	154,718
	14,458,055	13,434,460
Less: Allowances and returns	(688,654)	(466,255)
Net Sales	$ 13,769,401	$ 12,968,205

The Company's personal care products are marketed worldwide by six marketing partners, of which United States ("U.S.")-based Ashland Specialty Ingredients ("ASI") purchases the largest volume. Because all ASI's purchases are shipped to ASI's warehouses in the U.S., all sales to ASI are considered domestic sales, even though a certain percentage of the products shipped to ASI will be sold by ASI to customers outside the U.S. (see below). In 2018 and 2017 approximately 17% and 19%, respectively, of the Company's products were sold to end users located outside the U.S., either directly by the Company or by the Company's five other marketing partners.

Disaggregated gross sales by geographic region is as follows:

	Year ended December 31,	
	2018	2017
United States*	$ 11,937,499	$ 10,900,284
Other countries	2,520,556	2,534,176
Gross Sales	$ 14,458,055	$ 13,434,460

* Although a significant percentage of ASI's purchases from the Company are sold to foreign customers, all sales to ASI are considered U.S. (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 2018 approximately 75% 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 may be subsequently shipped 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.

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 the time of purchase. 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, 2018, approximately $313,000 exceeded the FDIC limit.

Dividends

On May 16, 2018, the Company's Board of Directors declared a semi-annual cash dividend of $0.50 per share, which was paid on June 13, 2018 to all stockholders of record as of May 30, 2018. On November 28, 2018, the Company's Board of Directors declared a semi-annual cash dividend of $0.55 per share which was paid on December 17, 2018, to all stockholders of record as of December 10, 2018. In 2018 the Company declared a total of $4,824,035 in dividends, of which $4,816,239 was paid. The balance of $7,796 is payable to stockholders who could not be located at the time the dividend was paid and is being held by the Company for future payment.

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 future payment.

Reclassification

Certain items in the 2017 financial statements have been reclassified to conform to the 2018 period presentation. See Note B.

Marketable Securities

Marketable securities include investments in equity and fixed income mutual funds and government securities and are reported at fair value with the related unrealized and realized gains and losses included in net income in accordance with ASU 2016-01. Realized gains or losses on mutual funds are determined using the average cost method. 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 2018 and 2017 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.

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, 2018 and 2017.

Other Assets (net)

Other assets at December 31, 2018 and 2017 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, 2018 and 2017 accumulated amortization for such assets amounted to $44,472 and $29,648, respectively.

Future amortization expense is as follows:

For the Years Ending December 31,	Amortization Expense
2019	$ 14,824
2020	14,823
Total:	$ 29,647

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, 2018, two of the Company's distributors and marketing partners accounted for approximately 59% of the Company's sales during the year, and approximately 47% of its outstanding accounts receivable at December 31, 2018. For the year ended December 31, 2017, the same two distributors and marketing partners accounted for a total of approximately 55% of the Company's sales during the year, and 58% of its outstanding accounts receivable at December 31, 2017.

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 80% and 88% of the raw material purchases by the Company in 2018 and 2017, 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, 2018 and 2017, 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, 2018 and 2017 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 2015 through 2017.

On August 3, 2018 the IRS issued IRS Rev. Proc 2018-40, which permits small business taxpayers to obtain automatic IRS consent to implement the small taxpayer provisions under the Tax Cuts and Jobs Act of 2017 ("TCJA") effective for tax years beginning after December 31, 2017. For the year ended December 31, 2018 the Company elected to change its method of tax accounting from an accrual method to the cash method.

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 $81,000 and $77,000 for the years ended December 31, 2018 and 2017, respectively.

Advertising Expenses

Advertising expenses are expensed as incurred. For the years ended December 31, 2018 and 2017, the Company incurred approximately $13,000 and $4,000, 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

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 were recorded in other comprehensive income.

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement" (Topic 820), Changes to the Disclosure Requirements for Fair Value Measurement". This amendment's objective is to improve the effectiveness of disclosures about recurring or nonrecurring fair value measurements. This amendment is effective for fiscal years beginning after December 15, 2019. The Company is evaluating the potential impact this standard may have on the financial statements.

In January 2016, the FASB issued ASU 2016-01 "Recognition and Measurement of Financial Assets and Financial Liabilities". This amendment requires companies to measure equity investments at fair value with changes in fair value recognized in net income. The Company adopted this standard effective January 1, 2018. In accordance with the implementation of the standard, the Company recognized a cumulative effect adjustment related to unrealized gains on marketable securities, to reduce accumulated other comprehensive income and increase retained earnings on January 1, 2018 by $466,025.

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

NOTE B - 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 1, 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 year ended December 31, 2017:

Statements of Income

	Year ended December 31, 2017		
	As Reported	Adjustments	Balance With ASU 2016-01 Adoption
Unrealized gain on marketable securities	$ ---	$ 323,793	$ 323,793
Income before provision for income taxes	5,550,779	323,793	5,874,572
Provision for income taxes	1,706,489	110,090	1,816,579
Net income	3,844,290	213,703	4,057,993
Earnings per common share (basic and diluted)	$ 0.84	$ 0.04	$ 0.88

In addition, the disaggregated net gains and losses on the marketable securities recognized in the income statement for the year ended December 31, 2018 are as follows:

	Year ended December 31, 2018
Net losses recognized during the year on marketable securities	$ (333,138)
Less: Net gains recognized during the year on marketable securities sold during the period	(4,204)
Unrealized losses recognized during the reporting year on marketable securities still held at the reporting date	$ (337,342)

The fair values of the Company's marketable securities are determined in accordance with US 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 US 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 Company's 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. The following tables summarize the Company's investments:

December 31, 2018	Cost	Fair value	Unrealized gain
U.S. Treasury Bills (Maturities less than 1 year)	$ 3,742,681	$ 3,742,681	$ ---
Fixed income mutual funds	2,408,799	2,409,213	414
Equity and other mutual funds	1,218,153	1,470,302	252,149
Total marketable securities	$ 7,369,633	$ 7,622,196	$ 252,563
December 31, 2017			
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 U.S. Treasury Bills and dividend income from equity and other mutual funds. Realized gains and losses on sales of investments are determined on an average cost basis.

Proceeds from the sale and redemption of marketable securities amounted to $8,022,804 for the year ended December 31, 2018, which included realized gains of $4,204. Proceeds from the sale and redemption of marketable securities for the year ended December 31, 2017 amounted to $4,776,044 , which included realized gains of $33,297.

NOTE C – INVENTORIES

Inventories consist of the following:

	December 31,	
	2018	2017
Raw materials	$ 467,842	$ 363,739
Work in process	30,057	39,004
Finished products	984,252	937,780
Total Inventories	$ 1,482,151	$ 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 method. Finished product inventories at December 31, 2018 and December 31, 2017 are net of a reserve of $20,000 for slow-moving or obsolete inventory. At December 31, 2018 and 2017 the Company had an allowance of $160,533 and $127,768, respectively, for possible outdated material returns, which is included in accrued expenses.

NOTE D – INCOME TAXES

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

	Years ended December 31,	
Current	**2018**	2017
Federal	$ 893,768	$ 1,738,132
State	27	117
Total current provision for income taxes	893,795	1,738,249
Deferred		
Federal	219,728	(31,760)
State	---	---
Total deferred provision for income taxes	219,728	(31,760)
Total provision for income taxes	$ 1,113,523	$ 1,706,489

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,			
	2018		2017	
	($)	Tax rate	($)	Tax rate
Income taxes at statutory federal income tax rate	$ 1,148,000	21.0%	$ 1,887,000	34.0%
Domestic Production Activities tax benefit	---	---	(160,000)	(2.9)
Nondeductible expenses	1,000	---	1,000	---
Research & development credits	(20,000)	(0.3)	(34,000)	(0.6)

Non-taxable dividends	(6,000)	(0.1)	(5,000)	(0.09)
Deferred tax asset reduction for federal tax rate change	---	---	21,000	0.4
Other, net	(9,000)	(0.2)	(4,000)	(0.1)
Provision for income taxes	$ 1,114,000	20.4%	$ 1,706,000	30.7%

During 2017, the Company realized the tax benefits of the Domestic Production Activities deduction, which amounted to approximately 9% of net income from domestic production. Under the TCJA this deduction was repealed for tax years beginning in 2018.

The TJCA also favorably amended certain tax provisions applicable to eligible small business taxpayers. On August 3, 2018, the IRS issued Rev. Proc. 2018-40 which permits small business taxpayers to obtain automatic IRS consent to implement the small taxpayer provisions under the act, effective for tax years beginning after December 31, 2017. For the year ended December 31, 2018, in accordance with Rev. Proc. 2018-40, the Company elected to change its method of tax accounting from an accrual method to the cash method.

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

	December 31,	
	2018	2017
Deferred tax assets		
Allowance for doubtful accounts	$ 3,548	$ 4,456
Inventories	4,200	9,104
Accounts payable	39,227	---
Accrued expenses	215,604	157,610
Total deferred tax assets	262,579	171,170
Deferred tax liabilities		
Accounts receivable	(354,787)	---
Prepaid expenses	(38,913)	---
Depreciation on property, plant and equipment	(69,424)	(81,145)
Unrealized gain on marketable securities	(53,038)	(123,880)
Total deferred tax liabilities	(516,162)	(205,025)
Net deferred tax liability	$ (253,583)	$ (33,855)

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 $90,000 and $94,000 for the years ended December 31, 2018 and 2017, 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 year ended December 31, 2018 the Company's Board of Directors authorized discretionary contributions in the amount of $145,000 per year to be allocated among all eligible employees. For the year ended December 31, 2017,

the Company's Board of Directors authorized $175,000 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. The Company's marketing efforts for these products are currently centered around the corporate web site as well as a separate web site developed specifically for Renacidin. In 2018 the Company began promoting Renacidin through internet advertising. Both of 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 four customers for the Company's medical products that take delivery of their shipments in the U.S. but potentially ship some of 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

(a) Net Sales

	Years ended December 31,	
	2018	2017
Personal care	$ 7,529,487	$ 6,868,227
Pharmaceutical	4,516,537	3,987,076
Medical	2,238,813	2,424,439
Industrial and other	173,218	154,718
	14,458,055	13,434,460
Less: Discounts and allowances	(688,654)	(466,255)
Net Sales	$ 13,769,401	$ 12,968,205

(b) Geographic Information (Gross Sales)

	Years ended December 31,	
	2018	2017
United States	$ 11,937,499	$ 10,900,284
Other countries	2,520,556	2,534,176
	$ 14,458,055	$ 13,434,460

(c) Sales to Major Customers

	Years ended December 31,	
	2018	2017
Customer A	$ 6,067,821	$ 5,350,392
Customer B	2,049,190	1,750,167
All other customers	6,341,044	6,333,901
	$ 14,458,055	$ 13,434,460

NOTE G – COMPREHENSIVE INCOME

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

Changes in Accumulated Other Comprehensive Income	December 31, 2018	December 31, 2017
Beginning balance - net of tax	$ 466,025	$ 175,634
Unrealized gain on marketable securities – net of tax	---	255,796
Reclassification of accumulated other comprehensive income to retained earnings in accordance with ASU-2016-01 (See Note B)	(466,025)	---
Reclassification of tax effect on unrealized gain on marketable securities due to federal tax rate change (See Note A)	---	34,595
Ending balance - net of tax	$ ---	$ 466,025

NOTE H - ACCRUED EXPENSES

Accrued expenses at December 31, 2018 and 2017 consist of:

	2018	2017
Bonuses	$ 242,000	$ 200,000
Distribution fees	315,242	254,863
Payroll and related expenses	159,385	152,903
Annual report expenses	66,618	62,510
Audit fee	43,668	43,268
Reserve for outdated material	160,533	127,768
Sales rebates	15,000	12,000
Computer services	16,593	---
Other	21,596	28,015
Total accrued expenses	$ 1,040,635	$ 881,327

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

Cash payments for income taxes were $1,150,000 and $1,600,000 for the years ended December 31, 2018 and 2017, respectively.

As of December 31, 2018 the Company had a number of unconverted shares of one of its previous corporate entities, Guardian Chemical Corporation (“Guardian”), that would convert to approximately 3,509 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. During 2018 the Company’s transfer agent escheated approximately 8,223 shares of Company stock to the appropriate state authorities. This stock was in the name of stockholders who could no longer be located by the Company or its transfer agent. The Company is now only accruing dividends on the remaining 3,509 shares that have not yet been escheated as of December 31, 2018. The Company will continue to accumulate a dividend payable on the above shares as dividends are declared. The Company anticipates paying the dividends that have been accrued on these escheated shares in the first quarter of 2019.

NOTE J - RELATED PARTY TRANSACTIONS

During each of the years ended December 31, 2018 and 2017 the Company paid to Bonamassa, Maietta, and Cartelli, LLP, $15,500 and $18,000, 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 Generally Accepted Accounting Principles in the United States of America ("US GAAP"). 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 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'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 and realized gains and losses included in net income. Realized gains or losses on mutual funds are determined using the average cost method. 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 records 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 2018 and 2017 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 from sales of its personal care, medical, and industrial products at the time the 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, control, 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 its 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. Prompt-pay discounts are offered to some customers; however, due to the uncertainty of the customers actually taking the discounts, the discounts are recorded when they are taken.

Gross revenues are subject to a variety of deductions, which generally are estimated and recorded in the same period that the revenues are recognized. Such variable consideration includes chargebacks from the United States Department of Veterans Affairs ("VA"), rebates, distribution fees, and sales returns. These deductions represent estimates of the related obligations and, as such, knowledge and judgment is required when estimating the impact of these revenue deductions on gross sales for a reporting period.

The Company has distribution fee contracts with certain distributors of the Company's pharmaceutical products that entitles those distributors to receive payment for distribution-related fees. The Company estimates and records distribution fees due to these customers in sales returns and allowances.

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, 2018 compared with the year ended December 31, 2017:

Sales

Sales increased from $13,434,460 in 2017 to $14,458,055 in 2018, an increase of $1,023,595 (approximately 8%). 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 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 $6,868,227 in 2017 to $7,529,487 in 2018, an increase of $661,260 (approximately 10%).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 $717,429 (approximately 13%) from $5,350,392 in 2017 to $6,067,821 in 2018. Aggregate sales to the Company's other marketing partners decreased by $44,522 (approximately 3%) from $1,464,053 in 2017 to $1,419,531 in 2018. Sales in the United Kingdom, France and Switzerland increased in the aggregate by $190,206 (approximately 23%) from $831,399 in 2017 to $1,021,605 in 2018, while aggregate sales to the Company's distributors in Italy and South Korea decreased by $234,728 (approximately 37%) from $632,654 in 2017 to $397,926 in 2018. There was a decrease of $11,646 in sales of personal care products to four other direct customers of the Company.

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 2018 approximately 75% of ASI's sales were to customers in foreign countries, compared with 72% in 2017. ASI's largest foreign market in both 2018 and 2017 was China, which accounted for approximately 55% of ASI's sales in both 2018 and 2017. 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 and Vietnam.

Sales of the Company's products in Europe decreased slightly in 2018 compared with 2017. 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 products at much lower prices. The strengthening of the U.S. dollar relative to the Euro also contributed to the increasingly competitive situation in Europe. To offset this competitive disadvantage 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 $529,461 (approximately 13%), from $3,987,076 in 2017 to $4,516,537 in 2018, with RENACIDIN accounting for most of the increase. Sales of RENACIDIN increased by $513,783 (approximately 15%) from $3,424,896 in 2017 to $3,938,679 in 2018, and accounted for approximately 27% of the Company's sales in 2018, as compared with 25% in 2017. The increase was due to higher sales of the Company's 30mL single dose form of the product, which was introduced in April 2016 and has gradually been increasing in sales. The single-dose unit was engineered to be more patient friendly by being able 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 believes that this more user-friendly package is responsible for the increase in demand for the product. The Company has launched a web site dedicated to RENACIDIN, and beginning in the second half of 2018 began advertising the product on the internet. The Company is continuing to work with an internet marketing 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 $222,399 (approximately 48%) in allowances for distribution fees, outdated material returns, and rebates paid to the VA and the U. S. Department of Defense. 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 $185,626 (approximately 8%) from $2,424,439 in 2017 to $2,238,813 in 2018. The decrease was primarily the result of a $166,724 (approximately 21%) decrease in sales of LUBRAJEL RC, and a $73,654 (approximately 10%) 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 RC and RR was primarily due to lower sales to two customers, both of which have purchasing patterns which can vary widely from year to year.

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

Sales of the Company's industrial products, as well as other miscellaneous products, increased by $18,500 (approximately 12%) from $154,718 in 2017 to $173,218 in 2018. The increase is primarily due to the increase in sales of one of the Company's industrial products by $5,185 (approximately 94%) in 2018 compared to 2017 combined with revenue derived from a research and development project conducted during 2018 for a new customer.

Gross Profit on Net Sales

Gross profit was approximately 59% in 2018 and 2017.

Operating Expenses

Operating expenses increased by $337,586 (approximately 19%) in 2018 compared with 2017, increasing from $1,785,160 in 2017 to $2,122,746 in 2018. The increase was mainly attributable to increases in computer services, consulting expenses, payroll and payroll related expenses.

Research and Development Expenses

Research and development expenses amounted to $646,079 and $399,517 in 2017 and 2018, respectively. The decrease of $246,562 was primarily related to a decrease in payroll and payroll related expenses resulting from the retirement of two of the Company's highly-paid R&D chemists. The Company is currently working more closely than it has in the past with ASI's R&D department to jointly develop and test new products, and as a result the Company has been able to continue its strong R&D efforts with a smaller in-house staff.

Investment Income

Investment income decreased by $49,882 (approximately 18%) from $281,868 in 2017 to $231,986 in 2018. The decrease was due to a decrease in investment income from both stock and bond mutual funds.

Net (Loss) Gain on Marketable Securities

In 2018, in accordance with ASU 2016-01, which requires all unrealized gains and losses on marketable securities to be recognized in net income, the Company recognized an unrealized loss of $337,342, which was netted with a realized gain of $4,204 for a net loss on marketable securities of $333,138. In 2017 the Company had a realized gain of $33,297 on the income statement, and an unrealized gain on marketable securities, net of taxes, of $255,796 in accumulated other comprehensive income in stockholders' equity.

Provision for Income Taxes

The provision for income taxes decreased by $592,966 (approximately 35%) from $1,706,489 in 2017 to $1,113,523 in 2018. This decrease was mainly due to a decrease in the federal statutory corporate income tax rate from 34% in 2017 to 21% in 2018. The Company's effective income tax rate was approximately 30% in 2017 and approximately 20% in 2018, and is lower than the federal statutory rate primarily due to the additional tax deduction for domestic production activities in 2017, and the utilization of research and development tax credits in both 2017 and 2018.

Liquidity and Capital Resources

Working capital decreased from $10,428,139 at December 31, 2017 to $10,320,949 at December 31, 2018, a decrease of $107,190 (approximately 1%). The current ratio increased from 8.3 to 1 at December 31, 2017 to 8.6 to 1 at December 31, 2018. The decrease in working capital and the increase in the current ratio were mainly due to a decrease in accounts receivable and a decrease in income taxes payable.

Accounts receivable (net of allowance for doubtful accounts) as of December 31, 2018 decreased by $232,848 (approximately 12%) from $1,905,415 in 2017 to $1,672,567 in 2018. The receivables turnover, or Days Sales Outstanding, for 2018 was 47 days, compared with 49 days in 2017. The decrease was mainly the result of increased collection efforts and implementing electronic payments from some larger customers. The Company has bad debt reserves of $16,895 and $21,220 for 2018 and 2017, respectively, and believes that the net balance of its accounts receivable is fully collectible as of December 31, 2018.

The Company generated cash from operations of $4,950,412 in 2018 compared with $3,992,287 in 2017. The increase in 2018 was primarily due to an increase in net income and a decrease in accounts receivable and an increase in deferred income taxes.

Net cash used in investing activities was $308,759 for the year ended December 31, 2018 compared with net cash provided by investing activities of $2,815,382 for the year ended December 31, 2017. This decrease in net cash was mainly due to an increase in purchases of marketable securities in 2018 compared with 2017.

Cash used in financing activities was $4,816,239 and $6,507,249 during the years ended December 31, 2018 and 2017, respectively. The decrease was due to the payment of lower dividends in 2018 compared with 2017.

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, which note is incorporated herein by reference.

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.

Holders of Record

As of March 1, 2019, there were 450 holders of record of Common Stock.

Cash Dividends

On May 16, 2018, the Company's Board of Directors declared a semi-annual cash dividend of $0.50 per share, which was paid on June 13, 2018 to all stockholders of record as of May 30, 2018. On November 28, 2018, the Company's Board of Directors declared a semi-annual cash dividend of $0.55 per share which was paid on December 17, 2018 to all stockholders of record as of December 10, 2018.

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.

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, 2018 and 2017, 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, 2018, 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, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2018, 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 20, 2019

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* Effective March 25, 2019

NOTE: 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 to such report. Contact: Corporate Secretary, United-Guardian, Inc., P.O. Box 18050, Hauppauge, NY 11788.

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