UNITED-GUARDIAN, INC.

Excellence Through Innovation®

Annual Report 2019

UNITED-GUARDIAN, INC.

Officers and Directors

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

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

ANDREA J. YOUNG
Chief Financial Officer
Treasurer
Secretary

ROBERT S. RUBINGER
Director; Former Executive Vice President and
Secretary of United-Guardian, Inc.

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 the company's Guardian Laboratories Division at its 50,000 square foot facility in Hauppauge, New York. Some of its products are proprietary formulations with unique combinations of properties and ingredients. The cosmetic ingredients are marketed through a worldwide network of marketing partners, 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 primarily medical products 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 of industrial products.

The company's most important product line is its extensive LUBRAJEL® line of water-based moisturizing and lubricating gel products, which are used in both the company's cosmetic and medical 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.

2019 ANNUAL REPORT
to the stockholders of
UNITED-GUARDIAN, INC.

April 15, 2020

Dear Stockholder,

With the coronavirus occupying our daily thoughts and affecting virtually every business, it has been a challenging time for all of us. As a manufacturer of pharmaceuticals and medical products, we are an “Essential Business” under the guidelines promulgated by the New York State Governor’s office, and for that reason we have been able to remain open and continue our manufacturing and shipping operations, even if it is under difficult conditions. While we were not obligated to do so, we voluntarily reduced our daily workforce by 50% to reduce our workplace density. In order to partially make up for the lost working time and maintain as much production as possible, we are now working 7 days a week, with most employees working a nine hour shift every other day. We have also implemented strict social distancing to maintain as much separation between our employees as possible. Like every other business that is continuing to operate, we are monitoring our workplace very carefully, requiring employees to disinfect both themselves and their working areas, as often as possible. Most of our employees have been with us for many years, and we are doing everything we can to make sure that all of us get through this difficult time safely.

In regard to our financial results for 2019, despite the slowdown in the global economy last year and, in particular, the trade issues between the U.S. and China, we still had another profitable year, with increases in both sales and earnings. Sales for the year increased slightly from $13,445,565 to $13,599,084, and net income increased from $4,352,331 ($0.95 per share) to $4,761,711 ($1.04 per share), an increase in earnings of 9.4%.

As was the case in 2018, sales of our cosmetic ingredients in China, as well as in Korea, were impacted by the slowing global economy as well as increased competition from lower-priced Asian competitors. With strong support from Ashland Specialty Ingredients, our marketing partner in China, we have been doing everything we can to aggressively compete with these lower-cost Asian competitors, but in certain cases the pricing is just too low for us to be competitive. However, we expect Ashland to continue its strong marketing efforts in China, and are hopeful that with the waning of the coronavirus epidemic in China, production of cosmetic products there will begin to increase, and we will start to see a gradual increase in orders for our products.

In regard to Korea, sales had dropped dramatically over the past couple of years, and while much of that may have been due to the increased competition, we also believe that our Korean marketing partner was not marketing our products as aggressively as we needed. For that reason, we appointed Ashland as our new marketing partner for Korea, effective as of the end of last year. Ashland is now actively marketing our products there, and we are optimistic that we will be able to recover at least some of the business we lost, in addition to securing new business.

We were very pleased to see a significant increase in the sales of our medical lubricants, which rose by 33% last year, and have become an increasingly important revenue source for us. Not only did sales increase to some of our existing customers, but we also secured two new customers. This has been a growing market for us, and we are hopeful that sales of our medical lubricants will continue to increase.

In addition to the increase in the sales of our medical products we also experienced a 19% increase in sales of Renacidin® Irrigation, our most important pharmaceutical product, the sales of which have been increasing since we began our internet marketing campaign. We believe that Renacidin sales, as well as sales of Clorpactin®, our chlorine-based antimicrobial pharmaceutical product, will remain strong this year.

We are continuing to work closely with all our marketing partners to develop new and innovative ingredients for the cosmetic market. In particular, we are continuing our efforts to expand our line of “natural” cosmetic ingredients, an area in which we expect to see increased demand for new products. We have a number of such products in our R&D pipeline, and we expect to have several of these products in the hands of our marketing partners this year.

Here are just a few of the products on which our R&D department is currently working:

- **Lubrajel Marine:** This is a version of Lubrajel that was formulated using naturally-derived polysaccharides, with some of the ingredients sourced from marine vegetation. The original formulation of this product is already on the market, and while we haven’t seen any large sales so far, we are beginning to see some increases in sales.

In order to expand the potential uses for this this product we are now working with Ashland to incorporate one or more of their low-cost active ingredients into the product. We expect to find out shortly whether this project looks feasible.

- **Lubrajel Oil Natural:** This product was developed as a “natural” version of our very popular Lubrajel Oil. It uses vegetable feedstock, and, like the Lubrajel Marine, is based on polysaccharide chemistry. We have a final formula, and in the coming months we will be conducting hydration testing, with a goal of having this product on the market in the Fall. Like our other “natural” products, this product has been certified by Ecocert to comply with the COSMOS standards for use in natural and organic cosmetic products.

- **Lubrajel Oil PF:** This is a preservative-free version of Lubrajel Oil that was developed as a result of not only the high demand for our regular Lubrajel Oil, but also strong demand for our other preservative-free product, the original Lubrajel PF. By being preservative-free, formulators are able to use their own preservative systems without having to account for preservatives already incorporated into the product. We have completed the testing of this product, and plan to launch it by the end of the second quarter.

- **Low Cost Lubrajel:** Based on feedback from our marketing partners, we believe that there could be significant market potential for a version of Lubrajel that can be produced and marketed at a lower cost than the current line of Lubrajel products. There are certain global markets that are not suitable for the current price points for Lubrajel, and we believe that the development of a lower-priced Lubrajel could open these new markets for us. Prototypes are being developed and will undergo a series of tests to determine which formulation would be the most competitive but would also satisfy the requirement that the product be different enough from our other Lubrajel products that it wouldn’t cannibalize the sales of those products. Once a prototype has been selected, samples will be sent to our marketing partners.

- **Lubrajel Terra:** This addition to our “natural” product line uses plant-based materials. As is the case with our other “natural” products, we expect to receive Ecocert certification so that the product can be used to manufacture “natural” products. There had been delays in getting some of the raw materials needed to make this product, but the supply issue has been resolved, and we expect to ship samples to our marketing partners in the next few weeks.

- **Oil/Wax Hydration:** The concept for this product is an anhydrous textured gel that can be added to the oil phase of a cosmetic formula. We believe that there is a need in the marketplace that has not yet been filled for a product like this. Like many of our other “natural” products, this product has a high natural origin content based on ISO 16128, and, like our other natural products, is intended to be certified by Ecocert as a “natural” ingredient. Prototypes have been created and will undergo further testing and evaluation.

As a result of the profitable year we had last year, the Board of Directors, at each of its meetings in May and November of last year, declared cash dividends of $0.55 per share. The total dividends for the year of $1.10 is the most we have paid in one year, other than in those years in which a special dividend was paid. In both cases the Board concluded that declaring these dividends would not adversely affect our ability to fund any anticipated capital requirements, and would be in the best interests of both the company and its shareholders. Based upon the stock price at the time of November dividend, the trailing twelve-month dividend yield on our stock was about 6%. Based on the current market price the yield would be about 8%. This will be the 24th consecutive year that we have paid a dividend, and we are very pleased to once again be in a position to share our profitability with our stockholders.

With the disastrous impact the coronavirus is having on the world economy right now we are very grateful that we have been able to continue working and producing products. We don’t know how long that will last, but as long as our employees remain healthy and the State of New York allows us to continue our operations, we will do everything we can to continue to manufacture and ship orders. Like everyone else, we are hopeful that in the next few months things will begin to get better. Until then, we will continue to work on our current R&D projects, and will be working closely with our marketing partners to maintain, and hopefully increase, the sales of our cosmetic ingredients. We will also continue our marketing efforts for Renacidin, the sales of which we hope will continue to increase. Despite the global economic impact of the coronavirus, we are optimistic that within the next few months both the global and U.S. economies will gradually improve, and that despite the challenges that all of us are facing right now, that 2020 will be another profitable year.

UNITED-GUARDIAN, INC.

Ken Globus

Ken Globus
President

UNITED-GUARDIAN, INC.

STATEMENTS OF INCOME

	Years ended December 31, 2019	2018
Net sales	$ 13,599,084	$ 13,445,565
Costs and expenses:		
Cost of sales	5,657,353	5,343,459
Operating expenses	2,148,375	2,122,746
Research and development	397,391	399,517
Total costs and expenses	**8,203,119**	**7,865,722**
Income from operations	**5,395,965**	**5,579,843**
Other income (expense):		
Investment income	203,329	231,986
Net gain (loss) on marketable securities	431,076	(333,138)
Loss on trade-in of equipment	---	(12,837)
Total other income (expense)	**634,405**	**(113,989)**
Income before provision for income taxes	**6,030,370**	**5,465,854**
Provision for income taxes	1,268,659	1,113,523
Net income	$ **4,761,711**	$ **4,352,331**
Earnings per common share (basic and diluted)	$ 1.04	$ 0.95
Weighted average shares (basic and diluted)	4,594,319	4,594,319

See Notes to Financial Statements

UNITED-GUARDIAN, INC.

BALANCE SHEETS

ASSETS

	December 31, 2019	December 31, 2018
Current assets:		
Cash and cash equivalents	$ 1,048,311	$ 550,135
Marketable securities	6,867,516	7,622,196
Accounts receivable, net of allowance for doubtful accounts of $21,178 in 2019 and $16,895 in 2018	2,098,411	1,672,567
Inventories (net)	1,217,277	1,482,151
Prepaid expenses and other current assets	170,466	159,364
Prepaid income taxes	165,300	200,687
Total current assets	**11,567,281**	**11,687,100**
Property, plant, and equipment:		
Land	69,000	69,000
Factory equipment and fixtures	4,482,236	4,406,174
Building and improvements	2,839,289	2,801,582
Total property, plant and equipment	**7,390,525**	**7,276,756**
Less accumulated depreciation	6,609,818	6,448,831
Total property, plant, and equipment, net	**780,707**	**827,925**
Other assets (net)	14,824	29,647
TOTAL ASSETS	**$ 12,362,812**	**$ 12,544,672**

See Notes to Financial Statements

BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2019	December 31, 2018
Current liabilities:		
Accounts payable	$ 71,385	$ 186,797
Accrued expenses	1,129,126	1,040,635
Dividends payable	142,548	138,719
Total current liabilities	**1,343,059**	**1,366,151**
Deferred income taxes (net)	386,855	253,583
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, 2019 and 2018, respectively	459,432	459,432
Retained earnings	10,173,466	10,465,506
Total stockholders' equity	**10,632,898**	**10,924,938**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ **12,362,812**	$ **12,544,672**

See Notes to Financial Statements

STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended December 31, 2019 and 2018

	Common stock		Accumulated other comprehensive	Retained	
	Shares	Amount	income	earnings	Total
Balance, January 1, 2018	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, not paid ($1.05 per share)	---	---	---	(7,796)	(7,796)
Dividends declared and paid ($1.05 per share)	---	---	---	(4,816,239)	(4,816,239)
Balance, December 31, 2018	4,594,319	459,432	---	10,465,506	10,924,938
Net income	---	---	---	4,761,711	4,761,711
Dividends declared, not paid ($1.10 per share)	---	---	---	(3,829)	(3,829)
Dividends declared and paid ($1.10 per share)	---	---	---	(5,049,922)	(5,049,922)
Balance, December 31, 2019	4,594,319	$ 459,432	$ ---	$ 10,173,466	$ 10,632,898

See Notes to Financial Statements

UNITED-GUARDIAN, INC.

STATEMENTS OF CASH FLOWS

	Years ended December 31, 2019	2018
Cash flows from operating activities:		
Net income	$ 4,761,711	$ 4,352,331
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	175,810	191,942
Net (gain) loss on marketable securities	(431,076)	333,138
Loss on trade-in of equipment	---	12,837
Bad debt expense (recovery)	4,283	(4,325)
Reserve for inventories	15,000	---
Deferred income taxes	133,272	219,728
(Increase) decrease in operating assets:		
Accounts receivable	(430,127)	237,173
Inventories	249,874	(141,628)
Prepaid expenses and other current assets	(11,102)	(1,400)
Prepaid income taxes	35,387	(200,356)
Other assets	---	15,000
(Decrease) increase in operating liabilities:		
Accounts payable	(115,412)	(167,488)
Accrued expenses	88,491	159,308
Income taxes payable	---	(55,848)
Net cash provided by operating activities	**4,476,111**	**4,950,412**
Cash flows from investing activities:		
Acquisitions of property, plant and equipment	(113,769)	(74,993)
Purchases of marketable securities	(14,779,161)	(8,256,570)
Proceeds from sales of marketable securities	15,964,917	8,022,804
Net cash provided by (used in) investing activities	**1,071,987**	**(308,759)**
Cash flows from financing activities:		
Dividends paid	(5,049,922)	(4,816,239)
Net cash used in financing activities	**(5,049,922)**	**(4,816,239)**
Net increase (decrease) in cash and cash equivalents	498,176	(174,586)
Cash and cash equivalents, beginning of year	550,135	724,721
Cash and cash equivalents, end of year	$ 1,048,311	$ 550,135
Non-cash investing activities:		
Cost of equipment traded-in (net)	------	39,837
Supplemental disclosure of cash flow information		
Taxes paid	1,100,000	1,150,000
Supplemental disclosure of non-cash dividend on unexchanged shares	$ 3,829	$ 7,796

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, pharmaceuticals, medical lubricants, and specialty industrial products. It also conducts research and product development, primarily related to the development of new and unique cosmetic ingredients. 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 93% and 94% of the Company's sales for the years ended December 31, 2019 and December 31, 2018, respectively. Lubrajel accounted for approximately 67% and 72% of the Company's sales for the years ended December 31, 2019 and December 31, 2018, respectively, and Renacidin accounted for approximately 26% and 22% of the Company's sales for the years ended December 31, 2019 and December 31, 2018, 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, reserve for inventory obsolescence, accrued distribution fees, outdated material returns, possible impairment of marketable securities and the allocation of overhead.

Reclassifications

Certain amounts in the prior-period financial statements have been reclassified to conform to the presentation of the current-period financial statements. These reclassifications had no effect on the previously reported net income.

In accordance with ASC Topic 606 "Revenue from Contracts with Customers", for the year ended December 31, 2018, the Company reclassified certain sales rebates from Cost of Sales to Net Sales, in the amount of $323,836. The reclassification had no effect on gross profit, net income, the provision for income taxes or earnings per share for the year ended December 31, 2018. See "Revenue Recognition" below for further discussion regarding ASU Topic 606.

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. At December 31, 2019 and 2018, the allowance for doubtful accounts receivable amounted to $21,178 and $16,895, respectively. 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. 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 sales, as reported, are net of a variety of deductions, which generally are estimated and recorded in the same period that the revenues are recognized. Such variable consideration, primarily related to the sale of the Company's pharmaceutical products, includes chargebacks from the United States Department of Veterans Affairs ("VA"), rebates in connection with participation in Medicare and Medicaid programs, distribution fees, discounts, and outdated product returns. These deductions represent estimates of the related obligations and, as such, knowledge and judgment are required when estimating the impact of these revenue deductions on sales for a reporting period.

The Company recognizes revenue from sales of its cosmetic ingredients, medical products, 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, which is the satisfaction of the performance obligation. 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 under ASC Topic 606-10-32-8. 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.

The Company has distribution fee contracts with certain distributors of its pharmaceutical products that entitles them to receive distribution and services-related fees. The Company records distribution fees and estimates of distribution fees as offsets to revenue.

Disaggregated net sales by product class is as follows:

	Years ended December 31, 2019	2018
Cosmetic ingredients	$ 6,377,323	$ 7,529,487
Pharmaceuticals	4,091,817	3,510,720
Medical Products	2,968,806	2,232,141
Industrial and other	161,138	173,217
Total Net Sales	$ **13,599,084**	$ **13,445,565**

The Company's cosmetic ingredients are currently marketed worldwide by five marketing partners, of which United States ("U.S.")-based Ashland Specialty Ingredients ("ASI") purchases the largest volume. During most of 2019 the Company also had a separate marketing partner for Korea, but at the end of 2019 that territory was transferred to ASI. For the years ended December 31, 2019 and 2018, approximately 18% and 19%, respectively, of the Company's sales were to (a) its foreign-based marketing partners (which does not include ASI), which marketed and distributed the Company's cosmetic ingredients to customers outside the U.S, and (b) a few foreign customers for the Company's medical products.

Disaggregated sales by geographic region is as follows:

	Years ended December 31, 2019	2018
United States*	$ 11,118,629	$ 10,931,681
Other countries	2,480,455	2,513,884
Net Sales	$ **13,599,084**	$ **13,445,565**

* 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 significant percentage of the products are subsequently shipped by ASI to foreign customers. Based on sales information provided to the Company by ASI, for the years ended December 31, 2019 and 2018, 75% of ASI's sales of the Company's products were to foreign customers, with China representing 49% of the sales in 2019 and 55% in 2018.

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, 2019, approximately $1,174,000 exceeded the FDIC limit.

Dividends

On May 15, 2019, the Company's Board of Directors declared a semi-annual cash dividend of $0.55 per share, which was paid on June 14, 2019 to all stockholders of record as of May 31, 2019. On November 20, 2019, the Company's Board of Directors declared a semi-annual cash dividend of $0.55 per share which was paid on

December 10, 2019, to all stockholders of record as of December 3, 2019. In 2019, the Company declared a total of $5,053,751 in dividends, of which $5,049,922 was paid. The balance of $3,829 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 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.

Marketable Securities

The Company's marketable securities include investments in equity and fixed income mutual funds and U.S. Government securities. The Company's marketable equity securities are reported at fair value with the related unrealized and realized gains and losses included in net income. U.S Treasury Bills are considered debt securities and any realized gains or losses are reported in other comprehensive income. Realized gains or losses on mutual funds are determined on a specific identification basis. 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 2019 and 2018, 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, 2019 and 2018.

Other Assets (net)

Other assets at December 31, 2019 and 2018 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, 2019 and 2018, accumulated amortization for such assets amounted to $59,296 and $44,472, respectively. The final amortization expense of $14,824 will be taken in FY2020.

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, 2019, two of the Company's distributors and marketing partners accounted for approximately 52% of the Company's gross sales during the year, and approximately 50% of its outstanding accounts receivable at December 31, 2019. For the year ended December 31, 2018, the same two distributors and marketing partners accounted for a total of approximately 56% of the Company's gross sales during the year, and 47% of its outstanding accounts receivable at December 31, 2018.

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 86% and 80% of the raw material purchases by the Company in 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018, the Company did not record any tax-related interest or penalties. The Company's tax returns for 2016 and all subsequent years are subject to examination by the United States Internal Revenue Service and by the State of New York.

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 changed its method of tax accounting from an accrual method to the cash method.

On December 18, 2019, the FASB issued ASU 2019-12, "Simplifying the Accounting for Income Taxes", which modifies ASC 740 to simplify the accounting for income taxes. The amendments in ASU 2109-12 are effective for fiscal years beginning after December 15, 2020. The Company is currently evaluating whether any of the modifications included in this pronouncement will impact its financial statements.

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 $76,000 and $81,000 for the years ended December 31, 2019 and 2018, respectively.

Advertising Expenses

Advertising costs are expensed as incurred. For the years ended December 31, 2019 and 2018, the Company incurred approximately $28,000 and $13,000, 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 January 2019, the Company adopted ASU 2016-02, “Leases”, which was intended to improve financial reporting for lease transactions. This ASU requires 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 requires disclosures to help investors and other financial statement users better understand the amount and timing of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The adoption of this standard did not have a material impact on the Company’s financial statements

On December 18, 2019, the FASB issued ASU 2019-12, “Simplifying the Accounting for Income Taxes”, which modifies ASU 740 to simplify the accounting for income taxes. The amendments in ASU 2019-12 are effective for fiscal years beginning after December 15, 2020. Early adoption is permitted. The Company is currently evaluating if any of these modifications will have an impact on its financial statements.

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 does not expect the implementation of this standard to have a material impact on its 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 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, 2022. The Company is currently evaluating if this pronouncement will have a potential impact on its financial statements.

NOTE B - MARKETABLE SECURITIES

Marketable securities include investments in fixed income and equity mutual funds and U.S. Government securities with maturities greater than 3 months, which are reported at their fair values.

Effective January 2018, the Company adopted Accounting Standards Update (“ASU”) 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities”. This amendment required 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.

The Company's U.S. Treasury Bills are considered debt securities and any unrealized gains and losses are reported in other comprehensive income. The U.S. Treasury Bills are considered held to maturity securities, as they are purchased directly from the U.S. Government and are unable to be sold before the maturity date.

The disaggregated net gains and losses on the marketable securities recognized in the income statement for the years ended December 31, 2019 and 2018 are as follows:

	Years ended December 31, 2019	2018
Net gains (losses) recognized during the year on marketable securities	$ 431,076	$ (333,138)
Less: Net gains recognized during the year on marketable securities sold during the period	(262,399)	(4,204)
Unrealized gains (losses) recognized during the reporting year on marketable securities still held at the reporting date	$ **168,677**	$ (**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 marketable equity securities, which are considered available-for-sale 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, 2019

Debt Securities	Cost	Fair Value	Unrealized Gain
U.S Treasury Bills (maturities of greater than three months up to one year)	$ 3,481,625	$ 3,481,625	$ ---
Total debt securities	3,481,625	3,481,625	---
Equity Securities			
Fixed income mutual funds	1,940,071	2,122,157	182,086
Equity and other mutual funds	1,024,580	1,263,734	239,154
Total equity securities	2,964,651	3,385,891	421,240
Total marketable securities	$ **6,446,276**	**$ 6,867,516**	**$ 421,240**

December 31, 2018

Debt Securities			
U.S Treasury Bills (maturities of greater than three months up to one year)	$ 3,742,681	$ 3,742,681	$ ---
Total debt securities	3,742,681	3,742,681	---
Equity Securities			
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 equity securities	3,626,952	3,879,515	252,563
Total marketable securities	$ **7,369,633**	$ **7,622,196**	$ **252,563**

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 a specific identification basis.

Proceeds from the sale and redemption of marketable securities amounted to $15,964,917 for the year ended December 31, 2019, which included realized gains of $262,399. Proceeds from the sale and redemption of marketable securities for the year ended December 31, 2018 amounted to $8,022,804, which included realized gains of $4,204.

NOTE C – INVENTORIES

Inventories consist of the following:

	December 31, 2019	December 31, 2018
Raw materials	$ 320,507	$ 467,842
Work in process	81,002	30,057
Finished products	815,768	984,252
Total Inventories	$ **1,217,277**	$ **1,482,151**

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, 2019 and December 31, 2018 are net of a reserve of $35,000 and $20,000 respectively, for slow-moving or obsolete inventory. At December 31, 2019 and 2018, the Company had an allowance of $231,392 and $160,533 respectively, for possible outdated material returns, which is included in accrued expenses.

NOTE D – INCOME TAXES

The provision for income taxes consists of the following:

	Years ended December 31, 2019	Years ended December 31, 2018
Current		
Federal	$ 1,135,209	$ 893,768
State	178	27
Total current provision for income taxes	1,135,387	893,795
Deferred		
Federal	133,272	219,728
State	---	---
Total deferred provision for income taxes	133,272	219,728
Total provision for income taxes	$ **1,268,659**	$ **1,113,523**

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,			
	2019		2018	
	($)	Tax rate	($)	Tax rate
Income taxes at statutory federal income tax rate	$ 1,266,000	21.0%	$ 1,148,000	21.0%
Nondeductible expenses	1,000	---	1,000	---
Research & development credits	(8,000)	(0.1)	(20,000)	(0.3)
Non-taxable dividends	(2,000)	---	(6,000)	(0.1)
Other, net	12,000	0.2	(9,000)	(0.2)
Provision for income taxes	$ **1,269,000**	21.1%	$ **1,114,000**	20.4%

The TJCA 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,	
	2019	2018
Deferred tax assets		
Allowance for doubtful accounts	$ 4,447	$ 3,548
Inventories	7,350	4,200
Accounts payable	14,991	39,227
Accrued expenses	235,633	215,604
Total deferred tax assets	$ 262,421	$ 262,579
Deferred tax liabilities		
Accounts receivable	(445,113)	(354,787)
Prepaid expenses	(42,319)	(38,913)
Depreciation on property, plant and equipment	(73,384)	(69,424)
Unrealized gain on marketable securities	(88,460)	(53,038)
Total deferred tax liabilities	(649,276)	(516,162)
Net deferred tax liability	$ (**386,855**)	$ (**253,583**)

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 $88,000 and $90,000 for the years ended December 31, 2019 and 2018, 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, 2019 and 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. 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

Through its Guardian Laboratories division the Company manufactures and markets cosmetic ingredients, pharmaceuticals, medical lubricants, and specialty industrial products. It also conducts research and development, primarily related to the development of new and unique cosmetic ingredients. 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 ingredients 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: cosmetic ingredients, pharmaceuticals, medical products, and industrial products. Each product category is marketed differently. The cosmetic ingredients 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 60 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, 2021. The Company's other marketing partners are not under any contractual obligation to market the Company's cosmetic ingredients, and the Company has the ability to cancel those marketing arrangements at any time upon reasonable notice. All sales of the Company's cosmetic ingredients 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, which is its most important drug product. 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 products in which the Company's products are used, such as medical devices. 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, 2019	2018
Cosmetic Ingredients	$ 6,383,224	$ 7,529,487
Pharmaceuticals	5,238,226	4,516,537
Medical Products	2,971,243	2,238,813
Industrial and other	161,138	173,218
Gross Sales	14,753,831	14,458,055
Less: Discounts and allowances	(1,154,747)	(1,012,490)
Net Sales	$ **13,599,084**	$ **13,445,565**

(b) Geographic Information

	Years ended December 31, 2019	2018
United States	$ 11,118,629	$ 10,931,681
Other countries	2,480,455	2,513,884
Net Sales	$ **13,599,084**	$ **13,445,565**

(c) Gross Sales to Major Customers

	Years ended December 31, 2019	2018
Customer A	$ 5,349,381	$ 6,067,821
Customer B	2,390,911	2,049,190
All other customers	7,013,539	6,341,044
	$ **14,753,831**	$ **14,458,055**

NOTE G - ACCRUED EXPENSES

Accrued expenses at December 31, 2019 and 2018 consist of:

	2019	2018
Bonuses	$ 216,000	$ 242,000
Distribution fees	309,190	315,242
Payroll and related expenses	175,433	159,385
Annual report expenses	64,324	66,618
Audit fee	48,500	43,668
Reserve for outdated material	231,392	160,533
Sales rebates	46,100	15,000
Computer services	---	16,593
Other	38,187	21,596
Total accrued expenses	$ **1,129,126**	$ **1,040,635**

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

Cash payments for income taxes were $1,100,000 and $1,150,000 for the years ended December 31, 2019 and 2018, respectively.

As of December 31, 2019, the Company had a number of unconverted shares of one of its previous corporate entities, Guardian Chemical Corporation ("Guardian"), that would convert to approximately 2,430 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. The Company's transfer agent is holding an additional 9,246 (approximately) shares of United-Guardian stock that is pending escheatment to the appropriate state authorities because the owners of record could not be located by the Company or its transfer agent. It is likely that there will be additional stock escheatments on some or all of the remaining 2,430 shares as the Company's transfer agent continues to try to locate the holders of those shares. The Company is currently accruing dividends on only the 2,430 shares that have not yet been exchanged or designated for escheatment as of December 31, 2019, and the Company will continue to do so as dividends are declared. The Company will continue to pay dividends on the shares that are pending escheatment, and anticipates paying the dividends that have already accrued on those escheated shares in the first or second quarter of 2020.

NOTE I - RELATED PARTY TRANSACTIONS

During each of the years ended December 31, 2019 and 2018, the Company paid to Bonamassa, Maietta, and Cartelli, LLP, $17,500 and $15,500, 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 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 U.S. Government securities. The Company's marketable equity securities are reported at fair value with the related unrealized and realized gains and losses included in net income. U.S Treasury Bills are considered debt securities and any realized gains or losses are reported in other comprehensive income. Realized gains or losses on mutual funds are determined on a specific identification basis. 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 2019 and 2018, 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 cosmetic ingredients, medical products, 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. As of December 31, 2019 and December 31, 2018, the allowance for doubtful accounts receivable amounted to $21,178 and $16,895, 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's sales, as reported, are net of a variety of deductions, which generally are estimated and recorded in the same period that the revenues are recognized. Such variable consideration, primarily related to the sale of the Company's pharmaceutical products, includes chargebacks from the United States Department of Veterans Affairs ("VA"), rebates in connection with participation in Medicare and Medicaid programs, distribution fees, discounts, and outdated product returns. These deductions represent estimates of the related obligations and, as such, knowledge and judgment are required when estimating the impact of these revenue deductions on sales for a reporting period.

The Company has distribution fee contracts with certain distributors of its pharmaceutical products that entitles them to receive distribution and services-related fees. The Company records distribution fees and estimates of distribution fees as offsets to revenue.

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, 2019 compared with the year ended December 31, 2018:

Sales

Sales increased from $13,445,565 in 2018 to $13,599,084 in 2019, an increase of $153,519 (1%). The increase was due primarily to increases in sales of the Company's pharmaceutical products, primarily Renacidin, combined with an increase in sales of many of the Company's medical products. Those increases were partially offset by decreases in sales of the Company's cosmetic ingredients.

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

(a) **Cosmetic Ingredients**:

Sales of the Company's cosmetic ingredients decreased from $7,529,487 in 2018 to $6,377,323 in 2019, a decrease of $1,152,164 (15%). The decrease was attributable primarily to decreases in sales of the Company's Lubrajel products to ASI, the Company's largest marketing partner. Sales to ASI decreased by $718,440 (12%) from $6,067,821 in 2018 to $5,349,381 in 2019. Aggregate sales to the Company's other marketing partners decreased by $410,494 (29%) from $1,419,531 in 2018 to $1,009,037 in 2019. The largest decrease was to the Company's former marketing partner in Korea, which saw a decrease in sales of $243,341(73%), from $331,788 in 2018 to $88,447 in 2019. There was also a decrease of $23,230 in sales of the Company's cosmetic ingredients to three 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 2019 and 2018, 75% of ASI's sales were to customers in foreign countries. ASI's largest foreign market in both 2019 and 2018 was China, which accounted for approximately 49% of ASI's sales in 2019 and 55% of sales in 2018.

The decrease in sales to ASI was primarily the result of a decrease in ASI's sales of the Company's cosmetic ingredients in China, which has been a significant market for the Company's products over the past few years. Based on information provided to the Company by ASI, there have been two reasons for the decline in sales. First, there has been a decrease in demand for a cosmetic product line that had been using significant amounts of one of the Company's Lubrajel products. While still a significant market, the demand for those products has declined somewhat over the past year. Second, the Company is competing with lower-priced manufacturers in Asia that are marketing competitive products and are able to sell those products at a lower price. The Company is working closely with ASI to be more competitive with those products, and is hopeful that it will be able to recover some of the business it has lost to these lower-cost producers.

Sales of the Company's cosmetic ingredients in Europe decreased slightly in 2019 compared with 2018. There continues to be competition in Europe from Asian and European competitors selling copies 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. The Company continues to work closely with its marketing partners to be as competitive as possible and, when appropriate, to offer additional volume discounts and more aggressive pricing in order to maintain and increase sales and bring in new customers. However, the Company expects the European market to remain very competitive based on the increasing sales of these lower-cost products, and for that reason is concentrating its R&D efforts on developing new and unique products that these other companies do not have. The Company expects to introduce several such products during 2020.

The Company has been informed by ASI, its current marketing partner in Korea, that sales of the Company's products in Korea may be negatively impacted as a result of the spread of the coronavirus, since in Korea there has always been significant sales of cosmetic products to Chinese tourists. With the drastic reduction in travel by Chinese tourists there is an expectation on the part of cosmetic manufacturers that the demand for cosmetic products will decrease, especially if the virus continues to spread, which will mean that cosmetic manufacturers' purchases of the raw materials used to make their cosmetic products, including those produced by the Company, will be reduced. The Company also believes that there is a strong possibility that sales in China, Korea, Europe, the U.S., and other parts of the world may be impacted as a result of temporary business closures and the suspension of normal activities due to the spread of the virus. It is too early to determine what the impact will be on the Company's sales in the coming year, since that will depend to a large extent on the spread of the virus over the coming months.

Although the Company does source some of its raw materials from areas being impacted by the coronavirus, it has multiple sources for many, but not all, of its raw materials. For those it doesn't it is increasing its inventory in case there is a temporary delay in obtaining some of those materials. While at the present time the Company's production of cosmetic ingredients, as well as its other products, has not yet been impacted by the spread of the coronavirus, the situation is changing rapidly, both in the U.S. and overseas, and there is a possibility that businesses, including the Company's business, might have to temporarily shut down, which could have a significant impact on sales until production can be resumed.

(b) **Pharmaceuticals**:

Sales of the Company's two pharmaceutical products, Renacidin and Clorpactin, together increased by $581,099 (17%), from $3,510,720 in 2018 to $4,091,819 in 2019, with Renacidin accounting for most of the increase. Sales of Renacidin increased by $555,748 (19%) from $2,932,862 in 2018 to $3,488,610 in 2019, and accounted for approximately 26% of the Company's sales in 2019, as compared with 22% in 2018. The Company believes that much of this increase has been the result of the increased awareness of the product by both patients, caregivers, and physicians as a result of the launch of the Company's web site dedicated to Renacidin, the continuing efforts to promote the product on the internet, and the work being done by the Company's internet marketing consultant to make sure that the product comes up in as many relevant internet searches as possible. The Company intends to continue these successful internet marketing efforts during 2020.

As a result of the increase in sales of the Company's pharmaceutical products, there was an increase in allowances for distribution fees, VA chargebacks, Medicaid and Medicare rebates, and outdated material returns. Those fees, rebates, and allowances increase proportionally as sales of the Company's pharmaceutical products increase, and in 2019 those expenses increased by $142,257 (14%) over 2018, primarily due to the increase in Renacidin sales.

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

Sales of the Company's medical products increased by $736,665 (33%) from $2,232,141 in 2018 to $2,968,806 in 2019. The increase was primarily the result of a 58% increase in sales of Lubrajel MG, along with increases in sales of some of the Company's other medical lubricants, including Lubrajel RC and Lubrajel RR. While some of the increases were due to fluctuations in purchasing patterns of the customers for these products, there was also an increase in demand from some of the customers, particularly for the Lubrajel MG, where one of the major customers for that product, a contract manufacturer and packager, had a 125% increase in purchases as a result of securing new customers for the product.

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

Sales of the Company's industrial products, as well as other miscellaneous products, decreased by $12,079 (7%) from $173,217 in 2018 to $161,138 in 2019. The decrease was primarily due to the decrease in sales of one of the Company's industrial products to one customer.

Gross Profit on Sales

Gross profit on sales was 58% in 2019 compared with 60% in 2018. The decrease in gross profit in 2019 compared to 2018 was due to the increased sales of Renacidin in 2019 compared to 2018. This product carries a lower gross profit margin than the Company's other products. In 2019, Renacidin represented 26% of the Company's total sales compared to 22% in 2018.

Operating Expenses

Operating expenses increased by $25,629 (1%) in 2019 compared with 2018, increasing from $2,122,746 in 2018 to $2,148,375 in 2019. The increase was mainly attributable to increases in insurance expenses and employee fringe benefit expenses.

Research and Development Expenses

Research and development expenses amounted to $397,391 and $399,517 in 2019 and 2018, respectively. The decrease of $2,126 (less than 1%) was primarily related to a decrease in outside laboratory expenses. The Company has been working more closely than it has in the past with ASI's R&D department to jointly develop and test new products, which has lowered the internal costs involved with the development of new products.

Investment Income

Investment income decreased by $28,657 (12%) from $231,986 in 2018 to $203,329 in 2019. The decrease was due to a decrease in investment income from both stock and bond mutual funds. During 2019, the Company's investment portfolio was more heavily weighted in U.S. Treasury Bills which yielded interest income that was less than the dividend income recognized in 2018 from the Company's investment in stock and bond mutual funds.

Net Gain (Loss) on Marketable Securities

The net gain (loss) on marketable securities changed to a gain of $431,076 in 2019 from a loss of $333,138 in 2018, a positive change of $764,214.The increase was primarily due to the Company recognizing higher gains (both realized and unrealized) on its stock and bond mutual funds compared to the same period in 2018.

Provision for Income Taxes

The provision for income taxes increased by $155,136 (14%) from $1,113,523 in 2018 to $1,268,659 in 2019. This increase was due to an increase in net income. The Company's effective income tax rate was approximately 21% in 2019 and approximately 20% in 2018. The Company's effective income tax rate in 2018 was lower than in 2019 due to higher research and development tax credits in 2018 compared with 2019.

Liquidity and Capital Resources

Working capital decreased from $10,320,949 at December 31, 2018 to $10,224,222 at December 31, 2019, a decrease of $96,727 (less than 1%). The current ratio remained the same at 8.6 to 1 at December 31, 2019 and December 31, 2018. The decrease in working capital was mainly due to decreases in marketable securities and inventories, partially offset by increases in accounts receivable and cash.

Accounts receivable (net of allowance for doubtful accounts) as of December 31, 2019 increased by $425,844 (25%) from $1,672,567 in 2018 to $2,098,411 in 2019. The receivables turnover, or Days Sales Outstanding, for 2019 was 51 days, compared with 49 days in 2018. The increase was mainly the result of some of the Company's larger customers implementing electronic payments and, as a result, the payment terms increased to allow for additional processing time. The Company's allowance for doubtful accounts receivable increased from $16,895 in 2018 to $21,178 for 2019, and the Company believes that the net balance of its accounts receivable is fully collectible as of December 31, 2019.

The Company generated cash from operations of $4,476,111 in 2019 compared with $4,950,412 in 2018. The decrease in 2019 was primarily due to an increase in accounts receivable and the recognition of a gain on marketable securities in 2019 compared with a loss in 2018.

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 $1,071,987 for the year ended December 31, 2019. This increase in net cash was mainly due to an increase in sales of marketable securities in 2019 compared with 2018.

Cash used in financing activities was $5,049,922 and $4,816,239 during the years ended December 31, 2019 and 2018, respectively. The increase was due to the payment of higher dividends in 2019 compared with 2018.

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 2, 2020, there were 436 holders of record of Common Stock.

Cash Dividends

On May 15, 2019, the Company's Board of Directors declared a semi-annual cash dividend of $0.55 per share, which was paid on June 14, 2019 to all stockholders of record as of May 31, 2019. On November 20, 2019, the Company's Board of Directors declared a semi-annual cash dividend of $0.55 per share, which was paid on December 10, 2019 to all stockholders of record as of December 3, 2019.

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.

Reports of Independent Registered Public Accounting Firms

Baker, Tilly, Virchow & Krause, LLP:

To the shareholders and the board of directors of United-Guardian, Inc.:

Opinion on the Financial Statements

We have audited the accompanying balance sheet of United-Guardian, Inc. (the "Company") as of December 31, 2019, the related statement of income, stockholders' equity, and cash flows, for the period ended December 31, 2019, 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, 2019, and the results of its operations and its cash flows for the period ended December 31, 2019, 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 audit. 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 audit 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 audit 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 audit 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 audit 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 audit provide a reasonable basis for our opinion.

We have served as the Company's auditor since 2019.

/s/ Baker, Tilly, Virchow & Krause, LLP

Melville, NY
March 18, 2020

Raich Ende Malter & Co. LLP:

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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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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