Annual Report 2020

Cosmetic Ingredients

Pharmaceuticals

Health Care Products

Specialty Industrial Products

UNITED-GUARDIAN, INC.

Excellence Through Innovation®

UNITED-GUARDIAN, INC.

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Chairman of the Board of Directors
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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.

2020 ANNUAL REPORT
to the stockholders of
UNITED-GUARDIAN, INC.

April 10, 2021

Dear Stockholder,

For those of us not old enough to have experienced the terrible impact on the country of the 1918 flu pandemic, the Great Depression, and the second World War, this has clearly been the most difficult year that we have ever experienced. Not only has it disrupted our family lives and our financial well-being, but all of us have been living with the ever-present fear of being infected with what for so many became a death sentence. While it has been stressful for many of us to be working in close quarters around other people during this time, especially at the height of the pandemic last spring, at United-Guardian we felt that we had a responsibility to the many patients who rely on our pharmaceutical products, and we were determined to continue producing those products, as long as we could do so safely. Because we were considered an "essential business" in New York we were able to continue operating without interruption throughout 2020. We did this through a combination of longer working hours and, at times, operating 7 days a week. This enabled us to lower our employee density, while at the same time strictly enforce social distancing and the use of masks and other PPE. Our work schedules changed as the situation improved, and we were gradually able to safely resume our regular operations and working schedule. During this difficult time we had just two cases of Covid, both of which occurred early in the pandemic, and thankfully both employees recovered and came back to work.

As the year progressed, we began to feel the impact of the global pandemic as customers reduced their orders, especially in China. This especially impacted the sales of our cosmetic ingredients. We also saw a reduction in orders for our medical products, and we lost one large medical customer. We were able to maintain production throughout the year, and experienced only minor delays in shipping product.

As a result of the reduction in orders, revenue for the year was down 19%, decreasing to $10,986,081 from $13,599,084 in 2019. Net income for the year was $3,304,978 ($0.72 per share), down from $4,761,711 ($1.04 per share) in 2019. Despite the lower sales and earnings, our balance sheet as of December 31, 2020 remained very strong, with working capital of $9.8 million, stockholders' equity of $10.3 million, and a current ratio of 8.0 to 1.

Because of our strong financial condition, as well as confidence on the part of the Board of Directors that the company would successfully weather the pandemic, the Board declared a total of $0.78 in dividends in 2020, paying out slightly more than our earnings for the year. We did so with the confidence that not only do we have more than sufficient assets and liquidity to handle any foreseeable capital requirements, but also based on our belief that the global economic situation will gradually improve as the year progresses. Based on the stock price around the time of this letter, the dividend payout was equivalent to a dividend yield of approximately 5%. This will be the 25th consecutive year that we have paid a dividend, and I am pleased that despite the impact of the global pandemic we were still in a strong enough financial position to be able to do this for our stockholders.

As to the business we lost this past year, it is too soon to make an accurate determination as to how much of that we will be able to recover. Since we have significant foreign sales, it is going to depend in part on how quickly the rest of the world recovers from the pandemic. While China and many other Asian countries are recovering well, other parts of the world, such as Europe, are still struggling, with cases increasing and a slow pace of vaccinations. All of that is going to affect how quickly their businesses can recover, and resume or increase their purchases of our products.

On a positive note, orders for product intended for China resumed in the first quarter. While not yet at the levels prior to the pandemic, we are still encouraged that the orders have resumed, and are hopeful that this will be just the beginning of the recovery of our sales in China. We are also encouraged by the efforts of our largest marketing partner, Ashland Specialty Products, in Korea. Ashland took over the marketing of our products in Korea in December 2019. They are making a significant effort to recover the business we lost when Korea was being serviced by our previous Korean marketing partner, and we are working closely with them to make sure that we formulate products that will give us the best chance of winning back some of the customers in Korea that we lost to lower-cost competitive products.

In regard to our pharmaceutical products I am pleased to report that those sales actually increased by over 10% last year, with most of that increase attributable to Renacidin® Irrigation. We are continuing our Renacidin internet marketing efforts, and we have seen a steady increase in interest in the product as a result of the internet ads that we have been running. Towards the end of 2020 we had to make the difficult decision to discontinue our participation in the Medicaid Drug Rebate Program ("Program"), which accounted for approximately 7.5% of Renacidin sales. Unfortunately, based on the unreasonably low prices at which we were required to sell Renacidin under the Program, as well as the overly burdensome rebates we had to pay to the participating states, we concluded that it was no longer profitable for us to continue in the Program. Ironically, our net income from Renacidin sales will actually increase as a result of discontinuing our participation in the Program, since it had reached a point where we were losing money on every sale. This will not affect our sales to the VA and Medicare, since we don't have the same pricing issue with those programs. Although Medicaid sales were a small percentage of our pharmaceutical sales, it was still a difficult decision to make, since we

know that there are many Medicaid patients who rely on Renacidin, a product that really has no effective substitute. We are looking into ways that we might be able to continue providing the product to Medicaid patients through other discount programs.

Our product development efforts are progressing on many fronts, with a focus on developing cosmetic ingredients that can be used to formulate "natural" cosmetic products. Here are some of the projects that we completed during 2020, as well as some on which we are currently working:

- **LUBRAJEL® OIL PF**: This product was developed as a result of the high demand for our very popular Lubrajel Oil, which is the most popular product of ours in China. Unlike the original product, this formulation is preservative-free, which enables formulators to use their own preservative systems without having to account for preservatives already incorporated into the product. We launched this product exclusively with Ashland, which initially launched the product in Asia in June 2020, followed by a global launch in November. There has been significant customer interest in this product, and we are optimistic about its future potential.

- **LUBRAJEL II XD PF**: This is another preservative-free product with a different skin feel and rheology than the Lubrajel Oil. It is now ready for marketing, and we anticipate that by the time you receive this letter it will already have launched. This product has already been qualified by some customers in the EMEA market (Europe, Middle East and Africa).

- **LOWER-COST LUBRAJEL**: With increasing competition in the marketplace for our Lubrajel products, especially from Asian competitors, we believe that it is important for us to make available to potential customers a formulation of Lubrajel for cosmetic use that can be produced and marketed at a lower cost than our current line of Lubrajel products, yet have similar benefits. This project is still in the R&D stage, but we are hopeful that a product will be ready to sample to our marketing partners by the end of the year.

- **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 and used to formulate "natural" products. A prototype formula has been developed, and we will be working with our marketing partners to ensure that the final product can be marketed at a reasonable price point.

- **LUBRAJEL 24**: The purpose of this project is to develop a product with 24-hour hydration. While our current water-based moisturizing products provide excellent hydration, the goal is to build upon that to produce a product with superior hydration that will last a full 24 hours. Prototypes have been developed and tested, and additional hydration studies will be scheduled. We hope to have a suitable product ready for marketing sometime next year.

- **LUBRAJEL OIL NATURAL**: This is a "natural" formulation of Lubrajel Oil that uses vegetable feedstock and is based on polysaccharide chemistry. Modifications have been made over the past year to increase hydration and stabilize the emulsion. We initially launched this product with our UK marketing partner due to a specific interest they had in this product, and some customers in the U.K. have already qualified the product. The first commercial order was received by us in January. We will continue to work with our marketing partners to gain feedback on this product and pursue additional markets where we believe this product could be successful.

- **LUBRAJEL TERRA**: This addition to our "natural" product line uses plant-based materials. Testing has been completed, samples and documentation have been sent to our marketing partners, and we hope to have this product ready for marketing by the end of the first half of 2021.

- **CLORPACTIN**: We have an ongoing project with SIGN Fracture Care International, a not-for-profit organization that provides access to bone fracture surgery to poor populations around the world. They are interested in providing Clorpactin to their hospitals for use during surgery. We are doing joint testing with them to determine the suitability of Clorpactin to withstand the varying shipping environments.

We will continue to work closely with all our marketing partners to develop new and innovative ingredients for the cosmetic market, and are optimistic that the worst of the pandemic is behind us and that the global economy will slowly improve over the next few years. We are optimistic that we will gradually recover some of the business we lost last year, and that the additional revenue we hope will be generated over the next few years from some of our recently introduced products will enable us to return to our previous levels of revenue and profitability as the year progresses.

UNITED-GUARDIAN, INC.

Ken Globus

Ken Globus
President

UNITED-GUARDIAN, INC.

STATEMENTS OF INCOME

	Years ended December 31, 2020	2019
Net sales	$ 10,986,081	$ 13,599,084
Costs and expenses:		
Cost of sales	4,872,335	5,657,353
Operating expenses	2,026,368	2,148,375
Research and development	451,208	397,391
Total costs and expenses	**7,349,911**	**8,203,119**
Income from operations	**3,636,170**	**5,395,965**
Other income:		
Investment income	226,245	203,329
Net gain on marketable securities	298,585	431,076
Total other income	**524,830**	**634,405**
Income before provision for income taxes	**4,161,000**	**6,030,370**
Provision for income taxes	856,022	1,268,659
Net income	$ **3,304,978**	$ **4,761,711**
Earnings per common share (basic and diluted)	$ 0.72	$ 1.04
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, 2020	December 31, 2019
Current assets:		
Cash and cash equivalents	$ 591,444	$ 1,048,311
Marketable securities	7,591,381	6,867,516
Accounts receivable, net of allowance for doubtful accounts of $14,017 in 2020 and $21,178 in 2019	1,387,698	2,098,411
Inventories (net)	1,415,773	1,217,277
Prepaid expenses and other current assets	161,208	170,466
Prepaid income taxes	99,107	165,300
Total current assets	**11,246,611**	**11,567,281**
Property, plant, and equipment:		
Land	69,000	69,000
Factory equipment and fixtures	4,516,335	4,482,236
Building and improvements	2,848,585	2,839,289
Total property, plant and equipment	**7,433,920**	**7,390,525**
Less accumulated depreciation	6,760,255	6,609,818
Total property, plant, and equipment, net	**673,665**	**780,707**
Other assets (net)	---	14,824
TOTAL ASSETS	$ **11,920,276**	$ **12,362,812**

See Notes to Financial Statements

UNITED-GUARDIAN, INC.

BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2020	December 31, 2019
Current liabilities:		
Accounts payable	$ 31,800	$ 71,385
Accrued expenses	1,363,457	1,129,126
Dividends payable	19,028	142,548
Total current liabilities	**1,414,285**	**1,343,059**
Deferred income taxes (net)	151,684	386,855
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, 2020 and 2019	459,432	459,432
Retained earnings	9,894,875	10,173,466
Total stockholders' equity	**10,354,307**	**10,632,898**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ **11,920,276**	$ **12,362,812**

See Notes to Financial Statements

UNITED-GUARDIAN, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended December 31, 2020 and 2019

	Common stock Shares	Common stock Amount	Retained earnings	Total
Balance, January 1, 2019	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
Net income	---	---	3,304,978	3,304,978
Dividends declared but not paid ($0.78 per share)	---	---	(1,138)	(1,138)
Dividends declared and paid ($0.78 per share)	---	---	(3,582,431)	(3,582,431)
Balance, December 31, 2020	4,594,319	$ 459,432	$ 9,894,875	$ 10,354,307

See Notes to Financial Statements

UNITED-GUARDIAN, INC.

STATEMENTS OF CASH FLOWS

	Years ended December 31, 2020	2019
Cash flows from operating activities:		
Net income	$ 3,304,978	$ 4,761,711
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	165,261	175,810
Net gain on marketable securities	(298,585)	(431,076)
Allowance for doubtful accounts	(7,161)	4,283
Reserve for inventories	---	15,000
Deferred income taxes	(235,171)	133,272
Decrease (increase) in operating assets:		
Accounts receivable	717,874	(430,127)
Inventories	(198,496)	249,874
Prepaid expenses and other current assets	9,258	(11,102)
Prepaid income taxes	66,193	35,387
(Decrease) increase in operating liabilities:		
Accounts payable	(39,585)	(115,412)
Accrued expenses	234,331	88,491
Dividends payable	(124,657)	---
Net cash provided by operating activities	**3,594,240**	**4,476,111**
Cash flows from investing activities:		
Acquisitions of property, plant and equipment	(43,395)	(113,769)
Purchases of marketable securities	(6,796,409)	(14,779,161)
Proceeds from sales of marketable securities	6,371,128	15,964,917
Net cash (used in) provided by investing activities	**(468,676)**	**1,071,987**
Cash flows from financing activities:		
Dividends paid	(3,582,431)	(5,049,922)
Net cash used in financing activities	**(3,582,431)**	**(5,049,922)**
Net (decrease) increase in cash and cash equivalents	(456,867)	498,176
Cash and cash equivalents, beginning of year	1,048,311	550,135
Cash and cash equivalents, end of year	$ 591,444	$ 1,048,311
Supplemental disclosure of cash flow information		
Taxes paid	$ 1,025,000	$ 1,100,000
Supplemental disclosure of non-cash dividends on unexchanged shares	$ 1,138	$ 3,829

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 92% and 93% of the Company's sales for the years ended December 31, 2020 and December 31, 2019, respectively. Lubrajel accounted for approximately 57% and 67% of the Company's sales for the years ended December 31, 2020 and December 31, 2019, respectively, and Renacidin accounted for approximately 36% and 26% of the Company's sales for the years ended December 31, 2020 and December 31, 2019, respectively.

Impact of the Coronavirus Pandemic

In March 2020, the spread of the coronavirus (COVID-19) began to cause disruptions among businesses and markets worldwide. On March 20, 2020, the Governor of New York issued an executive order which closed non-essential businesses. The Company, as a manufacturer of pharmaceutical and medical products, was considered an essential business, and continued to operate throughout the pandemic. When the spread of the coronavirus was at its worst in New York the Company modified its staffing schedule in order to decrease employee density as much as possible, with employees working 7 days a week on altered hours, and later on an every-other-week work schedule with limited hours. Despite the reduced schedule the Company was able to maintain adequate production and shipping schedules, and was able to fill all orders on a timely basis. As things improved, the Company gradually increased its working hours and employee density until it resumed its regular working schedule in June 2020. Throughout the pandemic the Company was able to maintain its full payroll, all employees received their full pay, and no employees were furloughed or dismissed.

While the Company's pharmaceutical sales have not been impacted by the coronavirus pandemic, sales of the Company's cosmetic ingredients and medical products have been significantly impacted, particularly in the second half of 2020. Sales of the Company's cosmetic ingredients in 2020 decreased by 33% compared with 2019. The decrease was primarily the result of lower sales to Ashland Specialty Ingredients ("ASI"), the Company's marketing partner in China, and was caused primarily by factors related to the coronavirus, including (a) lower consumer demand in China for many of the products in which the Company's products are used; (b) manufacturing disruptions in China resulting from the impact of the coronavirus on manufacturing facilities; and (c) excess inventory levels due to overstocking on the part of both the Company's marketing partner for China as well its sub-distributors in China. The overstocking was due to the uncertainty on the part of the marketing partner about being able to continue to get product from the Company during the pandemic.

Since the Company's cosmetic ingredients are marketed in many different countries, it is difficult to project the future impact of the coronavirus pandemic on the Company's global cosmetic ingredient sales, since the virus continues to impact different countries at different times and to very different extents. The Company is hopeful that as vaccinations increase, the global economic situation will gradually improve. However, based on the current situation, as well as future projections by different analysts, the Company anticipates that the pandemic will continue to negatively impact sales of the Company's cosmetic ingredients throughout most or all of 2021.

The Company also believes that the coronavirus impacted sales to two of the Company's four medical product customers whose orders decreased in 2020, and may have been a factor in the loss of a third (although the Company has not yet been able to confirm that as the reason for that lost business). Overall sales of the Company's medical products decreased by 31% compared with the corresponding periods in 2019.

With the continuing uncertainty as to what the duration and future impact of the pandemic will be, the Company is unable to provide an accurate estimate or projection as to what the continuing impact of the coronavirus will be on the Company's operations or its financial results in the future. However, as of the date of this report, the Company does not anticipate that the coronavirus pandemic will affect the ability of the Company to obtain raw materials and maintain production. The Company has protection from large price fluctuations on its most important raw material, and has multiple sources for many of its other raw materials. Even with the impact of the coronavirus pandemic it has been able to maintain sufficient inventory and production levels to enable it to fulfill sales orders on a timely basis. The Company does not expect the carrying value of its assets or its liquidity to be impaired by the coronavirus pandemic.

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.

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, 2020 and 2019, the allowance for doubtful accounts receivable amounted to $14,017 and $21,178, 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

The Company records revenue in accordance with ASC Topic 606 "Revenue from Contracts with Customers." Under this guidance, revenue is recognized when a customer obtains control of promised goods or services, in an amount that reflects the consideration expected to be received in exchange for those goods or services. The Company's principal source of revenue is product sales.

The Company's sales, as reported, are subject to a variety of deductions, which 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.

During 2020 and 2019, the Company participated in various government drug rebate programs related to the sale of Renacidin, its most important pharmaceutical product. These programs include the Medicaid Drug Rebate Program (MDRP), Section 340B Drug Pricing Program (340B), Veterans Affairs Federal Supply Schedule (FSS), and the Medicare Part D Coverage Gap Discount Program (CGDP). These programs required the Company to either sell its product at a discounted price, or, in the case of Medicaid, to pay a significant rebate to the various states where Renacidin is provided to Medicaid patients. The Company's sales, as reported, are net of these rebates, some of which are estimated and are recorded in the same period that the revenue is recognized.

As a result of the overly burdensome nature of the Medicaid rebates, the Company concluded in October 2020 that it was no longer profitable for the Company to continue participating in the Medicaid or the 340B programs. As a result, on October 30, 2020, the Company informed the Centers for Medicare & Medicaid Services (CMS) and the Health Resources and Services Administration (HRSA) of its intention to terminate its Medicaid Drug Rebate Agreement and its 340B Drug Pricing Agreement, effective as of December 31, 2020. The Company will, however, continue to participate in the other government discount and rebate programs, specifically the Veterans Affairs FSS Program and the Medicare Part D Coverage Gap Program (CGDP).

As long as a valid purchase order has been received and future collection of the sale amount is reasonably assured, the Company recognizes revenue from sales of its products when those products are shipped, which is when the Company's performance obligation is satisfied. The Company's products are shipped "Ex-Works" from the Company's facility in Hauppauge, NY, and the risk of loss and responsibility for the shipment passes to the customer upon shipment. Sales of the Company's non-pharmaceutical medical products are deemed final upon shipment, and there is no obligation on the part of the Company to repurchase or allow the return of these goods unless they are defective. Sales of the Company's pharmaceutical products are final upon shipment 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 previous years' 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 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. Due to the Covid-19 pandemic the Company experienced minor delays in receiving payments from certain customers that were impacted by the pandemic, but the negative impact of those delayed payments was 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, 2020 and December 31, 2019, the allowance for doubtful accounts receivable was $14,017 and $21,178, respectively. Prompt-pay discounts are offered to some customers; however, due to the uncertainty of the customers taking the discounts, the discounts are recorded when they are taken.

The Company has distribution agreements with certain distributors of its pharmaceutical products that entitles those distributors to 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,	
	2020	**2019**
Cosmetic ingredients	$ 4,274,586	$ 6,377,323
Pharmaceuticals	4,519,052	4,091,817
Medical products	2,052,961	2,968,806
Industrial and other	139,482	161,138
Total Net Sales	$ 10,986,081	$ 13,599,084

The Company's cosmetic ingredients are currently marketed worldwide by five marketing partners, of which United States ("U.S.")-based 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, 2020 and 2019, approximately 20% and 18%, 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 are as follows:

	Years ended December 31, 2020	2019
United States*	$ 8,796,221	$ 11,118,629
Other countries	2,189,860	2,480,455
Net Sales	$ 10,986,081	$ 13,599,084

* 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, 68% of ASI's sales in 2020 were to customers in foreign countries, compared to 75% in 2019. ASI's largest foreign market in both 2020 and 2019 was China, which accounted for approximately 33% of ASI's sales in 2020 and 49% of sales in 2019.

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, 2020, approximately $653,000 exceeded the FDIC limit.

Dividends

On May 20, 2020, the Company's Board of Directors declared a semi-annual cash dividend of $0.42 per share, which was paid on June 17, 2020 to all stockholders of record as of June 3, 2020. On November 18, 2020, the Company's Board of Directors declared a semi-annual cash dividend of $0.36 per share which was paid on December 8, 2020, to all stockholders of record as of December 1, 2020. In 2020, the Company declared a total of $3,583,569 in dividends, of which $3,582,431 was paid. The balance of $1,138 is payable to stockholders whose old Guardian shares have not yet been exchanged to United-Guardian, Inc. shares and are pending escheatment. See Note H for further discussion.

During the third quarter of 2020, the Company paid approximately $124,041 to its transfer agent, which represented accrued dividends on unconverted Guardian shares. This payment was made to facilitate the conversion of those shares to United-Guardian, Inc. shares, and the subsequent escheatment of those shares to the appropriate state jurisdictions. The Company is continuing to accrue dividends on the remaining unconverted shares that are currently pending escheatment.

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 was payable to stockholders whose Guardian shares have not been exchanged to United-Guardian, Inc. shares and are pending escheatment. See Note H for further discussion.

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 realized gains or losses, if any, 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 2020 and 2019, 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, 2020 and 2019.

Other Assets (net)

Other assets at December 31, 2020 and 2019 represents an amount expended in connection with the development of the current single-dose form of Renacidin. The Company began amortizing these costs in the first quarter of 2016. At December 31, 2020 and 2019, accumulated amortization for such assets amounted to $74,120 and $59,296, respectively.

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, 2020, four of the Company's distributors and marketing partners accounted for approximately 72% of the Company's gross sales during the year and approximately 67% of its outstanding accounts receivable at December 31, 2020. For the year ended December 31, 2019, the same four distributors and marketing partners accounted for a total of approximately 70% of the Company's gross sales during the year and 70% of its outstanding accounts receivable at December 31, 2019.

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 did not experience any issues obtaining raw materials from its main suppliers during the COVID-19 pandemic. The Company has six major raw material vendors that collectively accounted for approximately 88% and 84% of the raw material purchases by the Company in 2020 and 2019, 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, 2020 and 2019, 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, 2020 and 2019, the Company did not record any tax-related interest or penalties. The Company's tax returns for 2017 and all subsequent years are subject to examination by the United States Internal Revenue Service and by the State of New York.

On December 18, 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2019-12, "Simplifying the Accounting for Income Taxes", which modifies ASC 740 to simplify the accounting for income taxes. The amendments in ASU 2019-12 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 $81,000 and $76,000 for the years ended December 31, 2020 and 2019, respectively.

Advertising Expenses

Advertising costs are expensed as incurred. For the years ended December 31, 2020 and 2019, the Company incurred approximately $27,000 and $28,000, respectively, in advertising expense, which primarily relates to the internet marketing of Renacidin, one of the Company's pharmaceutical products.

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 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.

The Company's U.S. Treasury Bills are considered debt securities and unrealized gains and losses, if any, 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, 2020 and 2019 are as follows:

	Years ended December 31, 2020	2019
Net gains recognized during the year on marketable securities	$ 298,585	$ 431,076
Less: Net gains recognized during the year on marketable securities sold during the period	(415,595)	(262,399)
Unrealized (losses) gains recognized during the reporting year on marketable securities still held at the reporting date	$ (117,010)	$ 168,677

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, 2020

	Cost	Fair Value	Unrealized Gain
Equity Securities			
Fixed income mutual funds	$ 6,703,107	$ 6,907,270	$ 204,163
Equity and other mutual funds	584,044	684,111	100,067
Total equity securities	7,287,151	7,591,381	304,230
Total marketable securities	$ 7,287,151	$ 7,591,381	$ 304,230

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

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 $6,371,128 for the year ended December 31, 2020, which included realized gains of $415,595. Proceeds from the sale and redemption of marketable securities for the year ended December 31, 2019 amounted to $15,964,917, which included realized gains of $262,399.

NOTE C – INVENTORIES

Inventories consist of the following:

	December 31, 2020	2019
Raw materials	$ 415,415	$ 320,507
Work in process	59,258	81,002
Finished products	941,100	815,768
Total Inventories	$ 1,415,773	$ 1,217,277

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, 2020 and December 31, 2019 are net of a reserve of $35,000. At December 31, 2020 and 2019, the Company had an allowance of $302,715 and $231,392 respectively, for possible outdated material returns, which is included in accrued expenses. As of the date of this report, the COVID-19 pandemic has not adversely affected the valuation of the Company's finished products, work in process or raw material inventories.

NOTE D – INCOME TAXES

The provision for income taxes consists of the following:

	Years ended December 31, 2020	2019
Current		
Federal	$ 1,091,148	$ 1,135,209
State	45	178
Total current provision for income taxes	1,091,193	1,135,387
Deferred		
Federal	(235,171)	133,272
State	---	---
Total deferred (benefit from) provision for income taxes	(235,171)	133,272
Total provision for income taxes	$ 856,022	$ 1,268,659

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, 2020		2019	
	($)	Tax rate	($)	Tax rate
Income taxes at statutory federal income tax rate	$ 874,000	21.0%	$ 1,266,000	21.0%
Nondeductible expenses	---	---	1,000	---
Research & development credits	(10,000)	(0.2)	(8,000)	(0.1)
Non-taxable dividends	(3,000)	(0.1)	(2,000)	---
Other, net	(5,000)	(0.1)	12,000	0.2
Provision for income taxes	$ 856,000	20.6%	$ 1,269,000	21.1%

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

	December 31, 2020	2019
Deferred tax assets		
Allowance for doubtful accounts	$ 2,944	$ 4,447
Inventories	7,350	7,350
Accounts payable	6,678	14,991
Accrued expenses	284,145	235,633
Total deferred tax assets	301,117	262,421
Deferred tax liabilities		
Accounts receivable	(294,360)	(445,113)
Prepaid expenses	(33,829)	(42,319)
Depreciation on property, plant and equipment	(60,724)	(73,384)
Unrealized gain on marketable securities	(63,888)	(88,460)
Total deferred tax liabilities	(452,801)	(649,276)
Net deferred tax liability	$ (151,684)	$ (386,855)

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 $83,000 and $88,000 for the years ended December 31, 2020 and 2019, 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, 2020 and 2019, the Company's Board of Directors authorized discretionary contributions in the amount of $130,000 and $145,000, respectively, 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 the Company, 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 website, a separate website developed specifically for Renacidin, its most important drug product, and internet marketing using Google ads. Both of these products were originally developed in the 1950s. Clorpactin pre-dated the need for a formal New Drug Application ("NDA"), and the current sterile liquid form of Renacidin is being marketed under an NDA that was approved by the FDA in 1990.

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,	
	2020	**2019**
Cosmetic Ingredients	$ 4,283,052	$ 6,383,224
Pharmaceuticals	5,959,705	5,238,226
Medical Products	2,054,093	2,971,243
Industrial and other	139,482	161,138
Gross Sales	12,436,332	14,753,831
Less: Discounts and allowances	(1,450,251)	(1,154,747)
Net Sales	$ 10,986,081	$ 13,599,084

(b) Geographic Information

	Years ended December 31, 2020	2019
United States	$ 8,796,221	$ 11,118,629
Other countries	2,189,860	2,480,455
Net Sales	$ 10,986,081	$ 13,599,084

(c) Gross Sales to Major Customers

	Years ended December 31, 2020	2019
Customer A	$ 3,236,113	$ 5,349,381
Customer B	2,796,310	2,390,911
Customer C	1,485,288	1,333,891
Customer D	1,434,097	1,256,640
All other customers	3,484,524	4,423,008
Total Gross Sales	$ 12,436,332	$ 14,753,831

NOTE G - ACCRUED EXPENSES

Accrued expenses at December 31, 2020 and 2019 consist of:

	2020	2019
Bonuses	$ 210,000	$ 216,000
Distribution fees	325,792	309,190
Payroll and related expenses	245,521	175,433
Annual report expenses	63,432	64,324
Audit fee	50,500	48,500
Reserve for outdated material	302,713	231,392
Sales rebates	149,346	46,100
Other	16,153	38,187
Total accrued expenses	$ 1,363,457	$ 1,129,126

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

Cash payments for income taxes were $1,025,000 and $1,100,000 for the years ended December 31, 2020 and 2019, respectively.

As of December 31, 2020, the Company had a number of unconverted Guardian shares that would convert to approximately 1,369 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 continues to try to locate the holders of those shares in anticipation of escheating them to the appropriate state jurisdictions. The Company is currently accruing dividends on the 1,369 shares that have not yet been exchanged or designated for escheatment as of December 31, 2020, and the Company will continue to do so as dividends are declared.

During the third quarter of 2020, the Company paid approximately $124,041 to its transfer agent, which represented accrued dividends on unconverted Guardian shares. This payment was made to

facilitate the conversion of those shares to United-Guardian, Inc. shares, and the subsequent escheatment of those shares to the appropriate state jurisdictions.

NOTE I - RELATED PARTY TRANSACTIONS

During each of the years ended December 31, 2020 and 2019, the Company paid Bonamassa, Maietta, and Cartelli, LLP, $16,250 and $17,500, respectively, for accounting and tax services. Lawrence Maietta, a partner in Bonamassa, Maietta, and Cartelli, LLP (newly part of PKF O' Connor Davies), is a director of the Company.

NOTE J – SUBSEQUENT EVENTS

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was signed into law. The CARES Act contains a provision known as the Employee Retention Credit ("ERC"), a refundable payroll tax credit for qualified wages paid to retained full-time employees between March 13, 2020 and December 31, 2020. The Consolidations Appropriations Act (CAA), signed into law on December 27, 2020, significantly modified and expanded the provisions of the ERC to include wages paid in the first half of 2021. The Company has determined that it has qualified for this credit in the first quarter of 2021 and anticipates utilizing benefits under this act to aid its liquidity position. For 2021, the ERC provides employers a refundable federal tax credit equal to 70% of the first $10,000 of qualified wages and benefits paid to retained employees between January 1, 2021 and June 30, 2021. Credits may be claimed immediately by reducing payroll taxes sent to the Internal Revenue Service. To the extent that the credit exceeds employment withholdings, the employer may request a refund of prior taxes paid.

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

Impact of the Coronavirus Pandemic

In March 2020, the spread of the coronavirus (COVID-19) began to cause disruptions among businesses and markets worldwide. On March 20, 2020, the Governor of New York issued an executive order which closed non-essential businesses. The Company, as a manufacturer of pharmaceutical and medical products, was considered an essential business, and continued to operate throughout the pandemic. When the spread of the coronavirus was at its worst in New York, the Company modified its staffing schedule in order to decrease employee density as much as possible, with employees working 7 days a week on altered hours, and later on an every-other-week work schedule with limited hours. Despite the reduced schedule the Company was able to maintain adequate production and shipping schedules and was able to fill all orders on a timely basis. As things improved, the Company gradually increased its working hours and employee density until it resumed its regular working schedule in June 2020. Throughout the pandemic the Company was able to maintain its full payroll, all employees received their full pay, and no employees were furloughed or dismissed.

While sales of the Company's pharmaceutical products have not been impacted by the coronavirus pandemic, sales of the Company's cosmetic ingredients and medical products were significantly impacted, particularly in the second half of 2020. Sales of the Company's cosmetic ingredients in 2020 decreased by 33% compared with 2019. The decrease was primarily the result of

lower sales to ASI, the Company's marketing partner in China, and was caused primarily by factors related to the coronavirus, including (a) lower consumer demand in China for many of the products in which the Company's products are used; (b) manufacturing disruptions in China resulting from the impact of the coronavirus on manufacturing facilities; and (c) excess inventory levels due to overstocking on the part of both the Company's marketing partner for China as well its sub-distributors in China. The overstocking was due to the uncertainty on the part of the marketing partner about being able to continue to get product from the Company during the pandemic.

Since the Company's cosmetic ingredients are marketed in many different countries, it is difficult to project the future impact of the coronavirus pandemic on the Company's global cosmetic ingredient sales, since the virus continues to impact different countries at different times and to very different extents. The Company is hopeful that as vaccinations increase, the global economic situation will gradually improve. However, based on the current situation, as well as future projections by different analysts, the Company anticipates that the pandemic will continue to negatively impact sales of the Company's cosmetic ingredients throughout most or all of 2021.

The Company also believes that the coronavirus impacted sales to two of the Company's four major medical product customers whose orders decreased in 2020, and may have been a factor in the loss of a third (although the Company has not yet been able to confirm that as the reason for that lost business). Overall sales of the Company's medical products decreased by 31% compared with the corresponding periods in 2019.

With the continuing uncertainty as to what the duration and future impact of the pandemic will be, the Company is unable to provide an accurate estimate or projection as to what the continuing impact of the coronavirus will be on the Company's operations or its financial results in the future. However, as of the date of this report, the Company does not anticipate that the coronavirus pandemic will affect the ability of the Company to obtain raw materials and maintain production. The Company has price protection on some but not all of its most important raw materials, has multiple sources for many of its raw materials, and has been able to maintain sufficient inventory and production levels to enable it to fulfill sales orders on a timely basis.

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 realized gains or losses, if any, 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 2020 and 2019, 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 records revenue in accordance with ASC Topic 606 "Revenue from Contracts with Customers." Under this guidance, revenue is recognized when a customer obtains control of promised goods or services, in an amount that reflects the consideration expected to be received in exchange for those goods or services. The Company's principal source of revenue is product sales.

The Company's sales, as reported, 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, 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.

During 2020 and 2019, the Company participated in various government drug rebate programs related to the sale of Renacidin, its most important pharmaceutical product. These programs include the Medicaid Drug Rebate Program (MDRP), Section 340B Drug Pricing Program (340B), Veterans Affairs Federal Supply Schedule (FSS), and the Medicare Part D Coverage Gap Discount Program (CGDP). These programs required the Company to either sell its product at a discounted price, or, in the case of Medicaid, to pay a significant rebate to the various states where Renacidin is provided to Medicaid patients. The Company's sales, as reported, are net of these rebates, some of which are estimated and are recorded in the same period that the revenue is recognized.

As a result of the overly burdensome nature of the Medicaid rebates it became clear to the Company in October 2020 that it was no longer profitable for the Company to continue participating in the Medicaid or the 340B programs. As a result, on October 30, 2020, the Company informed the Centers for Medicare & Medicaid Services (CMS) and the Health Resources and Services Administration (HRSA) of its intention to terminate its Medicaid Drug Rebate Agreement and its 340B Drug Pricing Agreement,

effective December 31, 2020. The Company will, however, continue to participate in the other government discount and rebate programs, specifically the Veterans Affairs FSS Program and the Medicare Part D Coverage Gap Program (CGDP).

As long as a valid purchase order has been received and future collection of the sale amount is reasonably assured, the Company recognizes revenue from sales of its products when those products are shipped, which is when the Company's performance obligation is satisfied. The Company's products are shipped "Ex-Works" from the Company's facility in Hauppauge, NY, and the risk of loss and responsibility for the shipment passes to the customer upon shipment. Sales of the Company's non-pharmaceutical medical products are deemed final upon shipment, and there is no obligation on the part of the Company to repurchase or allow the return of these goods unless they are defective. Sales of the Company's pharmaceutical products are final upon shipment 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 previous years' 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 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. Due to COVID-19, the Company experienced minor delays in receiving payments from certain customers that were impacted by the pandemic; however, the negative impact of those delayed payments was 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, 2020 and December 31, 2019, the allowance for doubtful accounts receivable was $14,017 and $21,178, respectively. Prompt-pay discounts are offered to some customers; however, due to the uncertainty of the customers taking the discounts, the discounts are recorded when they are taken.

The Company has distribution agreements with certain distributors of its pharmaceutical products that entitle those distributors to 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. As mentioned above, the Company has not experienced significant issues with the collection of its accounts receivable balances due to the COVID-19 pandemic.

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. The Company has performed an evaluation of its inventory on hand as of the date of this report and believes the reserve is adequate to cover any slow-moving or obsolete inventory. The Company does not believe the value of its finished products, work in process or raw material inventories have been adversely affected by the coronavirus pandemic.

Results of Operations

Year ended December 31, 2020 compared with the year ended December 31, 2019:

Sales

Sales decreased 19% from $13,599,084 in 2019 to $10,986,081 in 2020. The decrease was due primarily to decreases in sales of the Company's cosmetic products and non-pharmaceutical medical products. Those decreases were partially offset by an increase in sales of the Company's pharmaceutical products, primarily Renacidin.

The decrease 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 $6,377,323 in 2019 to $4,274,586 in 2020. The decrease was attributable primarily to a decrease in sales of the Company's Lubrajel line of products to ASI, the Company's largest marketing partner, whose purchases decreased by 40% in 2020. Aggregate sales to the Company's four other marketing partners increased from $914,690 in 2019 to $992,951 in 2020. That increase was primarily attributable to Company's marketing partner in the UK, whose sales increased from $361,156 in 2019 to $445,402 in 2020. There was also a small increase in sales of the Company's cosmetic ingredients to three other direct customers of the Company.

In addition to the above changes in marketing partner sales, as a result of the termination in December 2019 of the Company's marketing agreement with its former marketing partner in

Korea, there were no sales to that former marketing partner in 2020, compared with sales of $88,447 in 2019. Since December 2019 the Company's marketing efforts in Korea are being handled by ASI.

The decrease in sales to ASI was due to a number of factors, the principal one being the impact of the coronavirus pandemic, which significantly impacted ASI's sales of the Company's products in China. The decrease in ASI sales in China was the result of a number of factors, including (a) lower consumer demand in China for many of the products in which the Company's products are used; (b) manufacturing disruptions in China resulting from the impact of the coronavirus on manufacturing facilities; and (c) excess inventory levels of the Company's products resulting from overstocking on the part of both the Company's marketing partner for China as well as its sub-distributors in China, due to the uncertainty of being able to restock product during the pandemic. Since the Company's cosmetic ingredients are marketed globally by its marketing partners in many different countries, and since the virus continues to impact countries at different times and to very different extents, it is difficult to project the future impact of the coronavirus pandemic on the Company's global cosmetic ingredient sales. Until the global crisis passes it is likely that there will continue to be a negative impact on the Company's sales of its cosmetic ingredients, as well as, to a lesser extent, its non-pharmaceutical medical products.

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, 68% of ASI's sales in 2020 were to customers in foreign countries, compared to 75% in 2019. ASI's largest foreign market in both 2020 and 2019 was China, which accounted for approximately 33% of ASI's sales in 2020 and 49% of sales in 2019.

There continues to be global competition from Asian and European competitors selling products that are competitive with those sold by the Company and which are marketed at lower prices than those produced by the Company. The weakening of the U.S. dollar relative to the Euro in 2020 made the Company's products a little more competitive in 2020 than they had been in the past few years when the dollar had continued to strengthen against the Euro. The Company continues to work closely with its marketing partners to price its products as competitively 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 continuing competition from lower-cost competitors, and for that reason it 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 2021.

(b) Pharmaceuticals:

Because there are fees, rebates, and allowances associated with sales of the Company's two pharmaceutical products, Renacidin and Clorpactin, discussion of the Company's pharmaceutical sales includes references to both *gross sales* (before fees, rebates and allowances) and *net sales* (after fees, rebates and allowances). *Net* sales of the Company's two pharmaceutical products, Renacidin and Clorpactin, together increased from $4,091,817 in 2019 to $4,519,052 in 2020, with Renacidin accounting for most of the increase. *Gross* sales of Renacidin increased from

$4,635,019 in 2019 to $5,347,827 in 2020, while *gross* sales of Clorpactin increased from $603,209 in 2019 to $611,878 in 2020. The Company believes that much of the increase in Renacidin sales was due to increased awareness of the product by both patients, caregivers, and physicians, which the Company believes was the result of the Company's internet advertising campaign, along with its dedicated Renacidin.com website. The Company intends to continue these internet marketing efforts during 2021.

As a result of the increase in sales of the Company's pharmaceutical products, there was a commensurate increase in the allowances related to the sales of those products, including distribution fees, chargebacks on VA sales, Medicaid and Medicare rebates, and outdated material returns. Those fees, rebates, chargebacks, and other allowances increase proportionally as sales of the Company's pharmaceutical products increase, and in 2020 the allowances related to pharmaceutical sales increased by $294,244 (26%) compared with 2019, primarily due to the increase in Renacidin sales.

(c) Medical (non-pharmaceutical) products:

Sales of the Company's medical products decreased from $2,968,806 in 2019 to $2,052,961 in 2020. Approximately 37% of that decrease was due to the loss of one of the Company's four major medical product customers. One of the other customers is located in China, and the Company believes that the decrease in orders from that customer, as well as from one of its other major medical product customers not in China, was related to the impact of the coronavirus pandemic. The Company is hopeful that as the global markets begin to recover from the pandemic, orders from those affected customers will gradually increase.

(d) Industrial and other products:

Sales of the Company's industrial products, as well as other miscellaneous products, decreased from $161,138 in 2019 to $139,482 in 2020. The decrease was primarily due to a decrease in sales to two of the Company's industrial product customers, which operate in areas whose operations were negatively impacted by the Coronavirus pandemic.

Gross Profit on Sales

Gross profit on sales was 56% in 2020 compared with 58% in 2019. The decrease was due to the increased sales of Renacidin in 2020 compared with 2019, combined with the decrease in sales of the Company's Lubrajel line of products, which carry a higher profit margin. Renacidin carries a lower gross profit margin than the Company's other products due to the contract manufacturing costs connected with the manufacture of the product, as well as the rebates, discounts and allowances associated with it. In 2020, Renacidin represented 36% of the Company's gross sales compared with 26% in 2019.

Operating Expenses

Operating expenses decreased from $2,148,375 in 2019 to $2,026,368 in 2020. The decrease was mainly attributable to decreases in payroll, payroll related expenses, and employee fringe benefits. The Company was able to reduce these expenses during 2020 due to a lower employee head count. The Company anticipates that operating expenses will remain relatively consistent for 2021.

Research and Development Expenses

Research and development expenses increased from $397,391 in 2019 to $451,208 in 2020. The increase was primarily related to an increase in payroll and payroll related expenses and an increase in depreciation expense of R&D equipment.

Investment Income

Investment income increased from $203,329 in 2019 to $226,245 in 2020. The increase was due to an increase in dividend income from both stock and bond mutual funds. In early 2020, the Company began to shift its investment strategy from lower-yielding U.S. Treasury Bills towards short and intermediate-term bond funds that were yielding higher returns. 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 2020 from the Company's stock and bond mutual funds.

Net Gain on Marketable Securities

The net gain on marketable securities decreased from $431,076 in 2019 to $298,585 in 2020. The decrease was primarily due to the Company recognizing lower unrealized gains on its stock and bond mutual funds compared with the same period in 2019.

Provision for Income Taxes

The provision for income taxes decreased from $1,268,659 in 2019 to $856,022 in 2020. This decrease was due to a decrease in income before taxes. The Company's effective income tax rate was 20.6% in 2020 and 21.1% in 2019. The Company's effective income tax rate in 2020 was slightly lower than in 2019 due to higher research and development tax credits in 2020 compared with 2019.

Liquidity and Capital Resources

Working capital decreased from $10,224,222 at December 31, 2019 to $9,832,326 at December 31, 2020. The current ratio decreased from 8.6 to 1 at December 31, 2019 to 8.0 to 1 at December 31, 2020. The decrease in working capital was mainly due to decreases in cash and accounts receivable and an increase in accrued expenses.

Accounts receivable (net of allowance for doubtful accounts) as of December 31, 2020 decreased from $2,098,411 in 2019 to $1,387,698 in 2020. The decrease in accounts receivable was due to the decrease in sales the Company experienced during 2020 due the coronavirus pandemic. The receivables turnover, or "Days Sales Outstanding", for 2020 was 58 days, compared with 51 days in 2019. The increase was mainly the result of the Company experiencing minor delays in receiving payments from some customers during 2020 due to the pandemic. The Company's allowance for doubtful accounts receivable decreased from $21,178 in 2019 to $14,017 in 2020, and the Company believes that the net balance of its accounts receivable as of December 31, 2020 was, and continues to be, fully collectible.

The Company generated cash from operations of $3,594,240 in 2020 compared with $4,476,111 in 2019. The decrease in 2020 was primarily due to a decrease in net income in 2020 compared with 2019.

Net cash provided by investing activities was $1,071,987 for the year ended December 31, 2019 compared with net cash used in investing activities of $468,676 for the year ended December 31, 2020. This decrease in net cash provided by investing activities was mainly due to the execution of the Company's strategy to purchase additional short and intermediate-term bond mutual funds in 2020.

Net cash used in financing activities was $3,582,431 and $5,049,922 during the years ended December 31, 2020 and 2019, respectively. The decrease was due to the payment of lower dividends in 2020 compared with 2019.

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 and no material cash requirements of immediate concern.

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.

On March 27, 2020, the coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was signed into law. The CARES Act contains a provision known as the Employee Retention Credit ("ERC"), a refundable payroll tax credit for qualified wages paid to retained full-time employees between March 13, 2020 and December 31, 2020. The Consolidations Appropriations Act (CAA), signed into law on December 27, 2020, significantly modified and expanded the provisions of the ERC to include wages paid in the first half of 2021. The Company has determined that it has qualified for this credit in the first quarter of 2021 and anticipates utilizing benefits under this act to aid its liquidity position. For 2021, the ERC provides employers a refundable federal tax credit equal to 70% of the first $10,000 of qualified wages and benefits paid to retained employees between January 1, 2021 and June 30, 2021. Credits may be claimed immediately by reducing payroll taxes sent to the Internal Revenue Service. To the extent that the credit exceeds employment withholdings, the employer may request a refund of prior taxes paid.

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, 2021, there were 395 holders of record of Common Stock.

Cash Dividends

On May 20, 2020, the Company's Board of Directors declared a semi-annual cash dividend of $0.42 per share, which was paid on June 17, 2020 to all stockholders of record as of June 3, 2020. On November 18, 2020, the Company's Board of Directors declared a semi-annual cash dividend of $0.36 per share which was paid on December 8, 2020 to all stockholders of record as of December 1, 2020.

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.

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying balance sheets of United-Guardian, Inc. (the "Company") as of December 31, 2020 and 2019, the related statements of income, stockholders' equity, and cash flows, for the years then ended, 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, 2020 and 2019, and the results of its operations and its cash flows for the years then ended, 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 audits 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.

Critical Audit Matters

Critical audit matters are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. We determined that there are no critical audit matters.

/s/ Baker Tilly US, LLP

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

Melville, NY
March 18, 2021

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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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