UNITED-GUARDIAN, INC.

Excellence Through Innovation®

Cosmetic Ingredients

Pharmaceuticals

Health Care Products

Specialty Industrial Products

Annual Report 2021

UNITED-GUARDIAN, INC.

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

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

ANDREA YOUNG
Chief Financial Officer & Controller
Treasurer
Secretary

DONNA VIGILANTE
Vice President
R&D Manager
Director of Technical Services

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

LAWRENCE F. MAIETTA
Director; Partner in the accounting firm of
PKF O'Connor Davies, LLP
New York, NY

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

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

Corporate Profile

United-Guardian, Inc. is a publicly-traded (NASDAQ:UG) fully integrated research, development, manufacturing, and marketing company that has been supplying unique and innovative products to the personal care, health care, pharmaceutical, and industrial sectors since 1942. The company's products are developed and manufactured by the company's Guardian Laboratories Division at its 50,000 square foot facility in Hauppauge, New York. Some of its products are proprietary formulations with unique combinations of properties and ingredients. The cosmetic ingredients are marketed through a worldwide network of marketing partners, and are used by many of the major multinational cosmetic companies. The pharmaceuticals are sold primarily to full-line drug wholesalers, which distribute them to pharmacies, hospitals, physicians, long-term care facilities, and other health care providers. The health care products are primarily medical products marketed directly to manufacturers of medical devices and other medical products, which incorporate them into their finished products and distribute them to hospitals, pharmacies, and other health care facilities. The specialty industrial products are sold directly to manufacturers of industrial products.

The company's most important product line is its extensive LUBRAJEL® line of water-based moisturizing and lubricating gel products, which are used in both 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 the company's documented procedures and overall operations have attained the very high level of quality needed for this global certification level.

2021 ANNUAL REPORT
to the stockholders of
UNITED-GUARDIAN, INC.

May 18, 2022

Dear Stockholder:

This stockholders' report is unusual in that I am combining the Annual Report to Stockholders for FY-2021 with the 1st quarter 2022 stockholders' report. The reason for this is that in January we announced that the company's Board of Directors had launched a formal review process to explore strategic alternatives for company. This could involve strategic partnerships, an outright sale of the company, or other possible transactions. The goal is to ensure that shareholder value is being maximized, and that the company has sufficient financial resources to take advantage of growth opportunities that might be available to us in the future.

While this effort was progressing we felt that it would be best to postpone the annual stockholders' meeting and the issuance of the 2021 Annual Report to Stockholders. Because it is still ongoing, I am not yet at liberty to discuss the current status, but I will do so as soon as the formal review process has been completed and we are in a position to make a public disclosure of the results. However, with the first quarter having come to a close, I felt it was important to update our stockholders on the regular business of the company, and to discuss the FY 2021 results as well as the results of this year's first quarter.

As was the case with so many other companies around the world, our financial results in 2020 were significantly impacted by the global coronavirus pandemic. In 2021 the global financial situation gradually started to improve, and our net sales for the year increased by 27%, from $10,986,081 in 2020 to $13,929,629 in 2021. Those sales generated net income of $4,658,542 ($1.01 per share), compared with $3,304,978 ($0.72 per share) in 2020, an increase of 41%, resulting in one of the company's strongest and most profitable years ever.

In regard to the financial results for the first quarter of 2022, analyzing those results has become more complicated due to a change in the accounting rules governing the treatment of unrealized gains and losses on marketable securities, a change that became effective in January 2018. Companies are now required to include in their earnings any change in the value of their marketable securities, even if those securities were not sold. That meant that there would be a positive impact on a company's earnings when the stock market went up and the value of the company's marketable securities increased, and a negative impact when that value declined.

As a result, while net sales for the first quarter of 2022 rose by 13% compared with last year's first quarter, increasing from $3,430,868 to $3,892,358, net income actually decreased by $269,737 from $1,181,202 ($0.26 per share) in 2021 to $911,465 ($0.20 per share) this year. While some of this was due to increased costs, particularly raw material and shipping costs, approximately $.06 per share (pre-tax) of the reduced earnings was due to the decrease in the market value the company's portfolio of marketable securities, which was directly related to the overall decline in the stock market. Our income from operations, however, was almost identical to what it was in the first quarter of 2021.

For this reason, a better indicator of the health of our company and its business is the significant increase in demand that we experienced in FY-2021 for our cosmetic ingredients, with sales of those products increasing by 61% over 2020. Much of the increase was attributable to a resurgence of sales into China, but we also experienced a significant increase in sales in Europe, particularly in the United Kingdom, where sales increased by 42%. The increase in sales of our cosmetic ingredients continued in the first quarter of 2022, increasing by 27% compared with first quarter of 2021.

In regard to our pharmaceutical products, those sales remained strong in 2021, just as they have throughout the pandemic, and increased slightly in the first quarter of 2022. Sales of our medical products were also up in 2021, increasing by 6% over 2020. They decreased slightly in the first quarter of 2022, but this was due

primarily to the shortage of truck drivers along with limited availability of shipping vessels, since much of our sales of these products are to customers outside the U.S.

We continue to be optimistic that sales of both our cosmetic ingredients and our medical products will continue to grow in 2022 as we bring some of our new products to market. There are a number of product launches and ongoing R&D projects that we hope will enable us to continue to increase sales of these products. Our current focus continues to be on the development of new and unique "natural" cosmetic ingredients, preservative-free products, and new cosmetic ingredients that have superior moisturizing properties. Our UK marketing partner plans to launch two of our new preservative-free versions of Lubrajel, Lubrajel MS PF and Lubrajel DV PF, by the end of the second quarter. We also recently completed the development of a new extended moisturization product we call "Moisture Lock Lubrajel." Our goal was for the product to provide at least 24 hours of moisturization, and we were able to meet that goal. We are very excited about this new product, and expect to provide it to our marketing partners soon.

We also have several ongoing R&D projects with both new and existing medical products customers to develop superior water-based medical lubricants. We believe that the medical lubricant market will be an increasingly important one for us in the future, since our expertise in developing new products for this market is well known in the industry. These new medical lubricants, along with the new cosmetic ingredients, are just some of the projects on which we are currently working, and I will provide additional project updates in my next report to stockholders.

As a result of the strong year we had in 2021, in November 2021 the Board of Directors declared a dividend of $0.65 a share, which was paid on December 7, 2021, to all stockholders of record as of November 29, 2021. That dividend was an increase of 35% over the dividend the company had paid earlier in the year, and an 81% increase over the dividend paid in December 2020. It was also the largest dividend the company had ever paid, and brought the total dividends paid in 2021 to $1.13, which was a new high for the company for regular dividends paid in any year.

In May 2022 the Board of Directors met to decide whether to pay a dividend for the first half of 2022. They took into account not only the results of the first quarter, but also the projected results for the second quarter. The Board concluded that issuing a dividend was appropriate, but that with so many unknowns right now in regard to the global pandemic it would be prudent to reduce the dividend somewhat, and to reassess the situation later this year when the time comes to decide on the issuance of a dividend for the second half of the year. Accordingly, the Board declared a dividend of $0.37 a share, which will be paid on June 1st to all stockholders of record on May 23rd. The payment of this dividend will mark the 27th consecutive year the company has paid a dividend.

With the new products we recently introduced for the cosmetic market, as well as those that we are in the process of introducing, we believe that we will be able to continue to expand the sales of our cosmetic ingredients. We are also excited about the new projects for our medical products customers, a market that we continue to believe has significant growth potential for us. We are hopeful that we will be able to continue to grow our business, especially as the global pandemic and the accompanying supply chain issues continue to improve. We remain optimistic about the future of the company, and are looking forward to having another profitable year in 2022.

Sincerely,

UNITED-GUARDIAN, INC.

Ken Globus
President

UNITED-GUARDIAN, INC.

STATEMENTS OF INCOME

	Years ended December 31, 2021	2020
Net sales	$ 13,929,629	$ 10,986,081
Costs and expenses:		
Cost of sales	5,747,931	4,872,335
Operating expenses	2,035,970	2,026,368
Research and development	478,642	451,208
Total costs and expenses	**8,262,543**	**7,349,911**
Income from operations	**5,667,086**	**3,636,170**
Other income:		
Investment income	233,857	226,245
Net (loss) gain on marketable securities	(23,018)	298,585
Total other income	**210,839**	**524,830**
Income before provision for income taxes	**5,877,925**	**4,161,000**
Provision for income taxes	1,219,383	856,022
Net income	$ **4,658,542**	$ **3,304,978**
Earnings per common share (basic and diluted)	$ 1.01	$ 0.72
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, 2021	2020
Current assets:		
Cash and cash equivalents	$ 531,213	$ 591,444
Marketable securities	7,635,463	7,591,381
Accounts receivable, net of allowance for doubtful accounts of $20,252 in 2021 and $14,017 in 2020	1,813,346	1,387,698
Inventories (net)	1,410,789	1,415,773
Prepaid expenses and other current assets	192,579	161,208
Prepaid income taxes	---	99,107
Total current assets	**11,583,390**	**11,246,611**
Property, plant, and equipment:		
Land	69,000	69,000
Factory equipment and fixtures	4,605,742	4,516,335
Building and improvements	2,853,718	2,848,585
Total property, plant and equipment	**7,528,460**	**7,433,920**
Less accumulated depreciation	6,869,598	6,760,255
Total property, plant, and equipment, net	**658,862**	**673,665**
TOTAL ASSETS	$ **12,242,252**	$ **11,920,276**

See Notes to Financial Statements

UNITED-GUARDIAN, INC.

BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2021	2020
Current liabilities:		
Accounts payable	$ 410,894	$ 31,800
Accrued expenses	1,627,390	1,363,457
Deferred revenue	190,164	---
Income taxes payable	88,738	---
Dividends payable	20,575	19,028
Total current liabilities	**2,337,761**	**1,414,285**
Deferred income taxes (net)	83,222	151,684
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, 2021 and 2020, respectively	459,432	459,432
Retained earnings	9,361,837	9,894,875
Total stockholders' equity	**9,821,269**	**10,354,307**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ **12,242,252**	$ **11,920,276**

See Notes to Financial Statements

UNITED-GUARDIAN, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended December 31, **2021** and **2020**

	Common stock Shares	Common stock Amount	Retained earnings	Total
Balance, January 1, 2020	4,594,319	$ 459,432	$ 10,173,466	$ 10,632,898
Net income	---	---	3,304,978	3,304,978
Dividends declared, not paid ($.78 per share)	---	---	(1,138)	(1,138)
Dividends declared and paid ($.78 per share)	---	---	(3,582,431)	(3,582,431)
Balance, December 31, 2020	4,594,319	$ 459,432	$ 9,894,875	$ 10,354,307
Net income	---	---	4,658,542	4,658,542
Dividends declared, not paid ($1.13 per share)	---	---	(1,547)	(1,547)
Dividends declared and paid ($1.13 per share)	---	---	(5,190,033)	(5,190,033)
Balance, December 31, 2021	4,594,319	$ 459,432	$ 9,361,837	$ 9,821,269

See Notes to Financial Statements

UNITED-GUARDIAN, INC.

STATEMENTS OF CASH FLOWS

	Years ended December 31, 2021	2020
Cash flows from operating activities:		
Net income	$ 4,658,542	$ 3,304,978
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	145,977	165,261
Gain on sale of asset	(14,799)	---
Net loss (gain) on marketable securities	23,018	(298,585)
Allowance for doubtful accounts	6,235	(7,161)
Deferred income taxes	(68,462)	(235,171)
(Increase) decrease in operating assets:		
Accounts receivable	(431,883)	717,874
Inventories	4,984	(198,496)
Prepaid expenses and other current assets	(31,371)	9,258
Prepaid income taxes	99,107	66,193
Increase (decrease) in operating liabilities:		
Accounts payable	379,094	(39,585)
Accrued expenses	263,933	234,331
Deferred revenue	190,164	---
Income taxes payable	88,738	---
Dividends payable	---	(124,657)
Net cash provided by operating activities	**5,313,277**	**3,594,240**
Cash flows from investing activities:		
Acquisitions of property, plant and equipment	(116,375)	(43,395)
Purchases of marketable securities	(4,219,760)	(6,796,409)
Proceeds from sales of marketable securities	4,152,660	6,371,128
Net cash used in investing activities	**(183,475)**	**(468,676)**
Cash flows from financing activities:		
Dividends paid	(5,190,033)	(3,582,431)
Net cash used in financing activities	(5,190,033)	(3,582,431)
Net decrease in cash and cash equivalents	(60,231)	(456,867)
Cash and cash equivalents, beginning of year	591,444	1,048,311
Cash and cash equivalents, end of year	$ 531,213	$ 591,444
Supplemental disclosure of cash flow information		
Taxes paid	$ 1,100,000	$ 1,025,000
Supplemental disclosure of non-cash items:		
Dividends payable	$ 1,547	$ 1,138
Trade-in received from sale of asset	$ 29,000	---

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

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

Nature of Business

United-Guardian, Inc. (the "Company") is a Delaware corporation that, through its Guardian Laboratories division, manufactures and markets cosmetic ingredients, pharmaceuticals, medical lubricants, and specialty industrial products. It also conducts research and product development, primarily related to the development of new and unique cosmetic ingredients. The Company's research and development department also modifies, refines, and expands the uses for existing products, with the goal of further developing the market for the Company's products. Two major product lines, Lubrajel® and Renacidin® Irrigation Solution ("Renacidin") together accounted for approximately 93% and 92% of the Company's sales for the years ended December 31, 2021 and December 31, 2020, respectively. Lubrajel accounted for approximately 64% and 57% of the Company's sales for the years ended December 31, 2021 and December 31, 2020, respectively, and Renacidin accounted for approximately 29% and 36% of the Company's sales for the years ended December 31, 2021 and December 31, 2020, respectively.

Impact of the Coronavirus Pandemic

While the coronavirus pandemic ("pandemic") continues to impact certain areas of the Company's operations, the substantial impact the pandemic had on Company sales in 2020 significantly lessened in 2021. While the Company believes that sales of its cosmetic ingredients are still being negatively impacted, the sales situation has improved substantially, and the current impact is coming more from increased shipping costs and higher raw material costs, which may have some future impact on the Company's profit margins in upcoming quarters. It has also been more difficult to ship the Company's products due to a shortage of truck drivers and trucks, which has meant some delays on having orders picked up, even though the Company's products are available to ship. The shortage of truck drivers and trucks is expected to continue in 2022. The Company is minimizing the impact on customers by making them aware of the longer lead times that may be needed due to the trucking issue.

Sales of the Company's non-pharmaceutical medical products ("medical products") had also been negatively impacted by the pandemic in 2020, but those impacts lessened as well in 2021. Sales of the Company's pharmaceutical products were not impacted by the pandemic in 2020 or in 2021.

The pandemic has not significantly affected the ability of the Company to obtain raw materials, but it has made some of those materials more expensive, which could impact the Company's gross profit margins in the future. The Company has been able to maintain production throughout the pandemic.

There continues to be uncertainty in regard to the future impact of the pandemic on the Company's operations or financial results. While the impact on the Company's' sales lessened considerably in 2021, the Company is still unable to provide an accurate estimate or projection as to what the future impact of the pandemic will be on the Company's future operations or financial results. 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. 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, 2021 and 2020, the allowance for doubtful accounts receivable amounted to $20,252 and $14,017, 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, some of which are estimated. These deductions are recorded in the same period in which the revenue is recognized. Such deductions, primarily related to the sale of the Company's pharmaceutical products, include chargebacks from the United States Department of Veterans Affairs ('VA"), rebates in connection with the Company's current participation in Medicare programs and its past participation in 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 2021 and 2020, the Company participated in various government drug rebate programs related to the sale of Renacidin®, its most important pharmaceutical product. These programs include the Veterans Affairs Federal Supply Schedule (FSS), and the Medicare Part D Coverage Gap Discount Program (CGDP). These programs require the Company to sell its product at a discounted price. In addition, during 2020, the Company also participated in the Medicaid Drug Rebate Program (MDRP), which required the Company to pay a significant rebate to the various states where Renacidin was provided to Medicaid patients, as well as the Section 340B Drug Pricing Program (340B), which required the Company to sell their product at a deeply discounted price. Due to the overly burdensome nature of the Medicaid rebates, and the deeply discounted pricing associated with the 340B Program, the Company terminated its participation in the MDRP and the 340B Programs, effective December 31, 2020. 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 cosmetic 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; (c) the product cannot be sold because it is too close to its expiration date; or (d) the product has expired (but it is not more than one year after the expiration date). This return policy 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. At December 31, 2021 and 2020, the Company had an allowance of $313,904 and $302,715 respectively, for possible outdated material returns, which is included in accrued expenses. The Company has not experienced significant fluctuations between estimated allowances and actual activity.

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

At December 31, 2021, the Company recorded an advance payment from one of its customers in the amount of $190,164, which is included within the deferred revenue on the balance sheet. The related performance obligation associated with this payment had not been satisfied as of the balance sheet date and is expected to be fulfilled within the first two quarters of 2022.

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,	
	2021	2020
Cosmetic ingredients	$ 6,872,714	$ 4,274,586
Pharmaceuticals	4,735,324	4,519,052
Medical products	2,171,204	2,052,961
Industrial and other	150,387	139,482
Total Net Sales	$ 13,929,629	$ 10,986,081

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. For the years ended December 31, 2021 and 2020, approximately 20% 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,	
	2021	2020
United States*	$ 11,159,341	$ 8,796,221
Other countries	2,770,288	2,189,860
Net Sales	$ 13,929,629	$ 10,986,081

*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, 74% of ASI's sales in 2021 were to customers in foreign countries, compared to 68% in 2020. ASI's largest foreign market in both 2021 and 2020 was China, which accounted for approximately 41% of ASI's sales in 2021 and 34% of sales in 2020.

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, 2021, approximately $410,000 exceeded the FDIC limit.

Dividends

On May 18, 2021, the Company's Board of Directors declared a semi-annual cash dividend of $0.48 per share, which was paid on June 7, 2021 to all stockholders of record as of May 31, 2021. On November 16, 2021, the Company's Board of Directors declared a semi-annual cash dividend of $0.65 per share which was paid on December 7, 2021 to all stockholders of record as of November 29, 2021. In 2021, the Company declared a total of $5,191,580 in dividends, of which $5,190,033 was paid. The balance of $1,547 is payable to stockholders whose old Guardian shares have not yet been exchanged to United-Guardian, Inc. shares and are pending escheatment.

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.

Marketable Securities

The Company's marketable securities include investments in equity and fixed income mutual funds. The Company's marketable equity securities are reported at fair value with the related unrealized and realized gains

and losses included in net income. Realized gains or losses on mutual funds are determined 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 2021 and 2020, 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 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, 2021 and 2020.

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, 2021, four of the Company's distributors and marketing partners accounted for approximately 75% of the Company's gross sales during the year and approximately 80% of its outstanding accounts receivable at December 31, 2021. For the year ended December 31, 2020, the same four distributors and marketing partners accounted for a total of approximately 72% of the Company's gross sales during the year and 67% of its outstanding accounts receivable at December 31, 2020.

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 experienced a temporary supply issue related to one of its raw materials that was caused by a temporary disruption at the vendor's manufacturing facility. As a result, the Company located and is in the process of qualifying a second vendor for that material. The company does not expect this issue to impact manufacturing of the product in which this raw material is used. The Company has, however, experienced longer lead times due to shipping delays related to the pandemic. The Company has six major raw material vendors that collectively accounted for approximately 94% and 88% of the raw material purchases by the Company in 2021 and 2020, 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, 2021 and 2020, 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, 2021 and 2020, the Company did not record any tax-related interest or penalties. The Company's tax returns for 2018 and all subsequent years are subject to examination by the United States Internal Revenue Service and by the State of New York.

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 $82,000 and $81,000 for the years ended December 31, 2021 and 2020, respectively.

Advertising Expenses

Advertising costs are expensed as incurred. For the years ended December 31, 2021 and 2020, the Company incurred approximately $31,000 and $27,000, 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

On January 1, 2021, the Company adopted Accounting Standards Update (ASU) 2019-12, "Simplifying the Accounting for Income Taxes." This standard modified ASU 740 and simplifies the accounting for income taxes. The Company determined that these modifications did not 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 with maturities greater than 3 months, which are reported at their fair values.

The disaggregated net gains and losses on the marketable securities recognized in the income statement for the years ended December 31, 2021 and 2020 are as follows:

	Years ended December 31, 2021	2020
Net (loss) gain recognized during the year on marketable securities	$ (23,018)	$ 298,585
Less: Net gains realized during the year on marketable securities sold during the period	(111,917)	(415,595)
Net unrealized loss recognized during the reporting year on marketable securities still held at the reporting date	$ (134,935)	$ (117,010)

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, 2021			Unrealized
	Cost	Fair Value	Gain
Equity Securities			
Fixed income mutual funds	$ 6,814,420	$ 6,873,333	$ 58,913
Equity and other mutual funds	651,748	762,130	110,382
Total equity securities			
Total marketable securities	$ 7,466,168	$ 7,635,463	$ 169,295

December 31, 2020			Unrealized
	Cost	Fair Value	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

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

Proceeds from the sale and redemption of marketable securities amounted to $4,152,660 for the year ended December 31, 2021, which included realized gains of $111,917. Proceeds from the sale and redemption of marketable securities for the year ended December 31, 2020 amounted to $6,371,128, which included realized gains of $415,595.

NOTE C – INVENTORIES

Inventories consist of the following:

	December 31, 2021	2020
Raw materials	$ 494,348	$ 415,415
Work in process	119,069	59,258
Finished products	797,372	941,100
Total Inventories	$ 1,410,789	$ 1,415,773

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, 2021 and December 31, 2020 are net of a reserve of $35,000. 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, 2021	2020
Current		
Federal	$ 1,287,749	$ 1,091,148
State	96	45
Total current provision for income taxes	1,287,845	1,091,193
Deferred		
Federal	(68,462)	(235,171)
State	---	---
Total deferred benefit from income taxes	(68,462)	(235,171)
Total provision for income taxes	$ 1,219,383	$ 856,022

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, 2021 ($)	2021 Tax rate	2020 ($)	2020 Tax rate
Income taxes at statutory federal income tax rate	$ 1,234,364	21.0%	$ 873,810	21.0%
Research & development credits	(10,000)	(0.2)	(10,000)	(0.2)
Non-taxable dividends	(2,923)	(0.1)	(2,940)	(0.1)
Other, net	(2,058)	---	(4,848)	(0.1)
Provision for income taxes	$ 1,219,383	20.7%	$ 856,022	20.6%

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

	December 31, 2021	2020
Deferred tax assets		
Allowance for doubtful accounts	$ 4,253	$ 2,944
Inventories	7,350	7,350
Accounts payable	86,288	6,678
Accrued expenses	339,884	284,145
Total deferred tax assets	$437,775	$301,117
Deferred tax liabilities		
Accounts receivable	(385,056)	(294,360)
Prepaid expenses	(38,918)	(33,829)
Depreciation on property, plant and equipment	(61,471)	(60,724)
Unrealized gain on marketable securities	(35,552)	(63,888)
Total deferred tax liabilities	(520,997)	(452,801)
Net deferred tax liability	$ (83,222)	$ (151,684)

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 immediately. Company 401(k) matching contributions were approximately $80,000 and $83,000 for the years ended December 31, 2021 and 2020, 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, 2021 and 2020, the Company's Board of Directors authorized discretionary contributions in the amount of $109,000 and $130,000, 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. The discretionary contribution for 2021 will be paid in January 2022 and is included in accrued expenses at December 31, 2021.

NOTE F - GEOGRAPHIC and OTHER INFORMATION

Through its Guardian Laboratories division, the Company conducts research, product development, manufacturing, and marketing of cosmetic ingredients, personal and health care products, pharmaceuticals, non-pharmaceutical medical products, and proprietary specialty industrial products. All the products that the Company

markets, exception for Renacidin, are produced at its facility in Hauppauge, New York. Renacidin, a urological product, is manufactured for the Company by an outside contract manufacturer. 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, 2023. 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 effort for Renacidin, its most important drug product, centers around a separate Renacidin website, along with internet advertising using Google ads. There is currently no active marketing effort for Clorpactin. 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 marketed under an NDA that was approved by the FDA in 1990.

The medical products are not pharmaceutical products. They consist primarily of water-based lubricating gels, 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 them. Approvals are the responsibility of the company that markets the products in which the Company's products are used, which are typically classified as medical devices. However, the Company is responsible for manufacturing these products in accordance with current Good Manufacturing Practices for medical devices, and its manufacturing facility is subject to regular FDA oversight.

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, 2021	2020
Cosmetic Ingredients	$ 6,872,714	$ 4,283,052
Pharmaceuticals	5,748,244	5,959,705
Medical Products	2,175,822	2,054,093
Industrial and other	150,387	139,482
Gross Sales	14,947,167	12,436,332
Less: Discounts and allowances	(1,017,538)	(1,450,251)
Net Sales	$ 13,929,629	$ 10,986,081

(b) Geographic Information

	Years ended December 31, 2021	2020
United States	$ 11,159,341	$ 8,796,221
Other countries	2,770,288	2,189,860
Net Sales	$ 13,929,629	$ 10,986,081

(c) Gross Sales to Major Customers

	Years ended December 31, 2021	2020
Customer A	$ 5,641,279	$ 3,236,113
Customer B	2,526,869	2,796,310
Customer C	1,522,882	1,485,288
Customer D	1,488,301	1,434,097
All other customers	3,767,836	3,484,524
Total Gross Sales	$ 14,947,167	$ 12,436,332

NOTE G - ACCRUED EXPENSES

Accrued expenses at December 31, 2021 and 2020 consist of:

	2021	2020
Bonuses	$ 348,000	$ 210,000
Distribution fees	359,550	325,792
Payroll and related expenses	292,560	245,521
Company 401(k) contribution	109,000	---
Annual report expenses	64,038	63,432
Audit fee	61,500	50,500
Reserve for outdated material	313,904	302,713
Sales rebates	56,857	149,346
Other	21,981	16,153
Total accrued expenses	$ 1,627,390	$ 1,363,457

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

As of December 31, 2021, 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, 2021, 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 the year ended December 31, 2021, the Company paid PKF O'Connor Davies $19,500 for accounting and tax services. During the year ended December 31, 2020, the Company paid Bonamassa, Maietta, and Cartelli, LLP (now part of PKF O'Connor Davies), $16,250 for accounting and tax services. Lawrence Maietta, a partner at PKF O'Connor Davies, is a director of the Company.

NOTE J – SUBSEQUENT EVENTS

On January 25, 2022, the Company announced that its Board of Directors had launched a formal review process to explore strategic alternatives. The purpose of the review is to ensure that value is being maximized for shareholders, and that the Company has sufficient scale and financial resources to take advantage of potential growth opportunities available. These alternatives could include, among others, an outright sale of the Company, possible joint ventures, strategic partnerships or alliances, or other possible transactions.

In furtherance of this goal, the Company retained Capstone Partners, a Denver- and Boston-based financial advisory and investment banking company to assist it with this endeavor. The Company paid a non-refundable fee of $75,000 to Capstone in connection with the work they would be performing on behalf of the Company. The Company also retained the Denver-based law firm of Brownstein Hyatt Farber Schreck, LLP to assist with the legal aspects of any possible transactions that might result from the efforts of Capstone.

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

Impact of the Coronavirus Pandemic

While the coronavirus pandemic ("pandemic") continues to impact certain areas of the Company's operations, the substantial impact the pandemic had on Company sales in 2020 significantly lessened in 2021. While the Company believes that sales of its cosmetic ingredients are still being negatively impacted, the sales situation has improved substantially, and the current impact is coming more from increased shipping costs and higher raw material costs, which may have some future impact on the Company's profit margins in upcoming quarters. It has also experienced delays in shipping orders due to a shortage of truck drivers and trucks, and limited availability of shipping vessels. The shortage of truck drivers and shipping vessels is expected to continue in 2022

but improve as the year progresses. The Company has been able to minimize the impact on customers by making them aware of longer lead times that may be necessary as a result of these issues.

Sales of the Company's non-pharmaceutical medical products ("medical products") had also been negatively impacted by the pandemic in 2020, but those impacts have lessened as well in 2021. Sales of the Company's pharmaceutical products were not impacted by the pandemic in 2020 or in 2021.

The pandemic has not significantly affected the ability of the Company to obtain raw materials, but it has made some of those materials more expensive, which could impact the Company's gross profit margins in the future. The Company has been able to maintain production throughout the pandemic.

There continues to be uncertainty regarding the future impact of the pandemic on the Company's operations or financial results. While the impact on the Company's' sales lessened considerably in 2021, the Company is still unable to provide an accurate estimate or projection as to what the future impact of the pandemic will be on the Company's future operations or financial results. The Company does not expect the carrying value of its assets or its liquidity to be impaired by the pandemic.

Another result of the pandemic has been a significant increase in inflation during 2021. While it is unknown whether inflation will continue to increase or will begin to decrease during 2022, continued inflation is likely to result in further increases in raw material costs, shipping costs, and internal labor costs, which could impact the Company's future profit margins.

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. The Company's marketable equity securities are reported at fair value with the related unrealized and realized gains and losses included in net income. Realized gains or losses on mutual funds are determined 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 2021 and 2020, 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, some of which are estimated. These deductions are recorded in the same period in which the revenue is recognized. Such deductions, primarily related to the sale of the Company’s pharmaceutical products, include chargebacks from the United States Department of Veterans Affairs (‘VA”), rebates in connection with the Company’s current participation in Medicare programs and its past participation in 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. All references to “sales” or “Sales” shall mean “net sales” unless specifically identified as “gross sales.”

During 2021 and 2020, the Company participated in various government drug rebate programs related to the sale of Renacidin®, its most important pharmaceutical product. These programs include the Veterans Affairs Federal Supply Schedule (FSS), and the Medicare Part D Coverage Gap Discount Program (CGDP). These programs require the Company to sell its product at a discounted price. In addition, during 2020, the Company also participated in the Medicaid Drug Rebate Program (MDRP), which required the Company to pay a significant rebate to the various states where Renacidin was provided to Medicaid patients, as well as the Section 340B Drug Pricing Program (340B), which required the Company to sell their product at a deeply discounted price. Due to the overly burdensome nature of these Medicaid rebates on the Company, and the deeply discounted pricing associated with the 340B Program, the Company terminated its participation in the MDRP and the 340B Programs, effective December 31, 2020. The Company has continued 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). 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 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 cosmetic 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; (c) the product is too close to its expiration date for the customer to sell; or (d) the product is expired but is not more than one year after its expiration date. These return policies are in conformance with 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. During 2020, 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, 2021 and December 31, 2020, the allowance for doubtful accounts receivable was $20,252 and $14,017, 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, 2021 compared with the year ended December 31, 2020:

Sales

Sales increased 27% from $10,986,081 in 2020 to $13,929,629 in 2021. The increase was due primarily to increases in sales of the Company's cosmetic products and non-pharmaceutical medical products as global economies began recovering from the coronavirus pandemic during 2021.

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

(a) Cosmetic Ingredients:

Sales of the Company's cosmetic ingredients increased by 61% from $4,274,586 in 2020 to $6,872,714 in 2021. The increase was attributable primarily to an increase in sales of the Company's Lubrajel line of products to ASI, the Company's largest marketing partner, whose purchases increased by 74% in 2021. Aggregate sales to the Company's four other marketing partners increased by 22% from $992,951 in 2020 to $1,210,046 in 2021. That increase was primarily attributable to Company's marketing partner in the United Kingdom ("UK"), whose sales increased by 42%, from $445,402 in 2020 to $631,589 in 2021. These increases were offset by a small decrease in sales of the Company's cosmetic ingredients to four other direct customers of the Company.

The Company believes that the increase in sales of the Company's cosmetic ingredients to ASI was the result of global pandemic conditions improving. However, 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, 74% of ASI's sales in 2021 were to customers in foreign countries, compared to 68% in 2020. ASI's largest foreign market in both 2021 and 2020 was China, which accounted for approximately 41% of ASI's sales in 2021 and 34% of sales in 2020.

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 strengthening of the U.S. dollar relative to the Euro in the second half of 2021 made the Company's products a little less competitive than they had been in the first half of 2021, when the dollar had been weaker relative to 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 2022.

(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). Gross sales of the Company's two pharmaceutical products, Renacidin and Clorpactin, together decreased by 4%, from $5,959,705 in 2020 to $5,748,244 in 2021. Gross sales of Renacidin decreased by 6%, from $5,347,827 in 2020 to $5,041,460 in 2021, while gross sales of Clorpactin increased by 16% from $611,878 in 2020 to $706,784 in 2021. The decrease in Renacidin sales was primarily due the Company terminating its participation in the Medicaid Drug Rebate Program on December 31, 2020.

The decrease in gross sales was partially offset by a decrease in pharmaceutical related fees, rebates and allowances of $427,733 (30%). The decreases in these fees, rebates and allowances were primarily the result of the Company's termination of its participation in the Medicaid Drug Rebate Program at the end of 2020. Due to the overly burdensome nature of the Medicaid rebates that the Company had to pay under this program, the Company determined that it was no longer profitable for the Company to continue to participate. Accordingly, on October 30, 2020 the Company informed the Centers for Medicare & Medicaid Services (CMS) of its intention to terminate its Medicaid Drug Rebate Agreement and its participation in the Medicaid Program, effective December 31, 2020. As the Company had anticipated, the discontinuation of its participation in this program resulted in the loss of some Renacidin sales, but that loss was more than offset by the elimination of the rebate payments, which resulted in an

increase in gross profit from Renacidin sales. Although the Company will no longer be incurring Medicaid-related rebate costs, it will continue to incur costs related to other allowances, including Medicare rebates, distribution fees, chargebacks on VA sales, and outdated material returns.

(c) Medical (non-pharmaceutical) products:

Sales of the Company's medical products increased by 6%, from $2,052,961 in 2020 to $2,171,204 in 2021. Despite losing one of its major medical product customers in 2020, medical product sales rebounded in 2021 with increases in orders from two of the Company's larger medical customers located in China and India. The Company believes that the increases in those orders were due to improving economic conditions in those countries.

(d) Industrial and other products:

Sales of the Company's industrial products, as well as other miscellaneous products, increased by 8%, from $139,482 in 2020 to $150,387 in 2021. The increase was primarily due to an increase in sales to two of the Company's industrial product customers, which are located in areas whose operations had been negatively impacted by the Coronavirus pandemic, resulting in a decrease in their orders in 2020.

Gross Profit on Sales

Gross profit on sales was 59% in 2021 compared with 56% in 2020. The increase in gross profit was due to two main factors: 1) increased sales of the Company's Lubrajel line of products in 2021, which carry a higher profit margin than the Company's pharmaceutical products, and 2) the significant reduction in sales allowances related to the Company's pharmaceutical products in 2021 helped to increase the gross profit on those products in 2021 compared with 2020.

Operating Expenses

Operating expenses increased from $2,026,368 in 2020 to $2,035,970 in 2021. The increase was mainly attributable to an increase in consulting and professional fees. The Company anticipates that operating expenses will remain relatively consistent for 2022.

Research and Development Expenses

Research and development expenses increased from $451,208 in 2020 to $478,642 in 2021. The increase was primarily related to an increase in payroll and payroll related expenses.

Investment Income

Investment income increased from $226,245 in 2020 to $233,857 in 2021. 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.

Net (loss) gain on Marketable Securities

The net (loss) gain on marketable securities decreased from a net gain of $298,585 in 2020 to a net loss of $23,018 in 2021. The decrease was primarily due to the Company recognizing higher realized gains on sales of mutual funds in 2020, which totaled $415,595, compared to the realized gains on sales of mutual funds in 2021 of $111,917.

Provision for Income Taxes

The provision for income taxes increased from $856,022 in 2020 to $1,219,383 in 2021. This increase was due to an increase in income before taxes. The Company's effective income tax rate was 20.7% in 2021 and 20.6% in 2020.

Liquidity and Capital Resources

Working capital decreased from $9,832,326 at December 31, 2020 to $9,245,629 at December 31, 2021. The current ratio decreased from 8.0 to 1 at December 31, 2020 to 5.0 to 1 at December 31, 2021. The decrease in working capital was mainly due to an increase in dividends paid during 2021, combined with increases in accounts payable, accrued expenses and deferred revenue.

Accounts receivable (net of allowance for doubtful accounts) as of December 31, 2021 increased from $1,387,698 in 2020 to $1,813,346 in 2021. The increase in accounts receivable was due to the increase in sales the Company experienced during 2021 due to global economies recovering from the coronavirus pandemic, especially in the fourth quarter of 2021. The receivables turnover, or "Days Sales Outstanding", for 2021, was 42 days, compared with 58 days in 2020. The decrease was indicative of the improvement in customers' ability to more efficiently process payments as economies recovered from the pandemic during 2021. During 2020, the Company experienced minor delays in receiving payments from some customers. The Company's allowance for doubtful accounts receivable increased from $14,017 in 2020 to $20,252 in 2021, and the Company believes that the net balance of its accounts receivable as of December 31, 2021 was, and continues to be, fully collectible.

The Company generated cash from operations of $5,313,277 in 2021 compared with $3,594,240 in 2020. The increase in 2021 was primarily due to an increase in net income in 2021 compared with 2020, combined with an increase in accounts payable, accrued expenses and deferred revenue.

Net cash used in investing activities was $468,676 for the year ended December 31, 2020 compared with $183,475 for the year ended December 31, 2021. This decrease in net cash used in investing activities was mainly due to decreased purchases of marketable securities during 2021.

Net cash used in financing activities was $5,190,033 and $3,582,481 during the years ended December 31, 2021 and 2020, respectively. The increase was due to the payment of higher dividends in 2021 compared with 2020.

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.

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" ("Common Stock"). 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 Common Stock traded on the American Stock Exchange under the same symbol.

Holders of Record

As of March 1, 2022, there were 385 holders of record of Common Stock.

Cash Dividends

On May 18, 2021, the Company's Board of Directors declared a semi-annual cash dividend of $0.48 per share, which was paid on June 7, 2021 to all stockholders of record as of May 31, 2021. On November 16, 2021, the Company's Board of Directors declared a semi-annual cash dividend of $0.65 per share which was paid on December 7, 2021 to all stockholders of record as of November 29, 2021.

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.

UNITED-GUARDIAN, INC.

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, 2021 and 2020, 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, 2021 and 2020, 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.

Uniondale, NY
March 16, 2022

UNITED-GUARDIAN, INC.

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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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