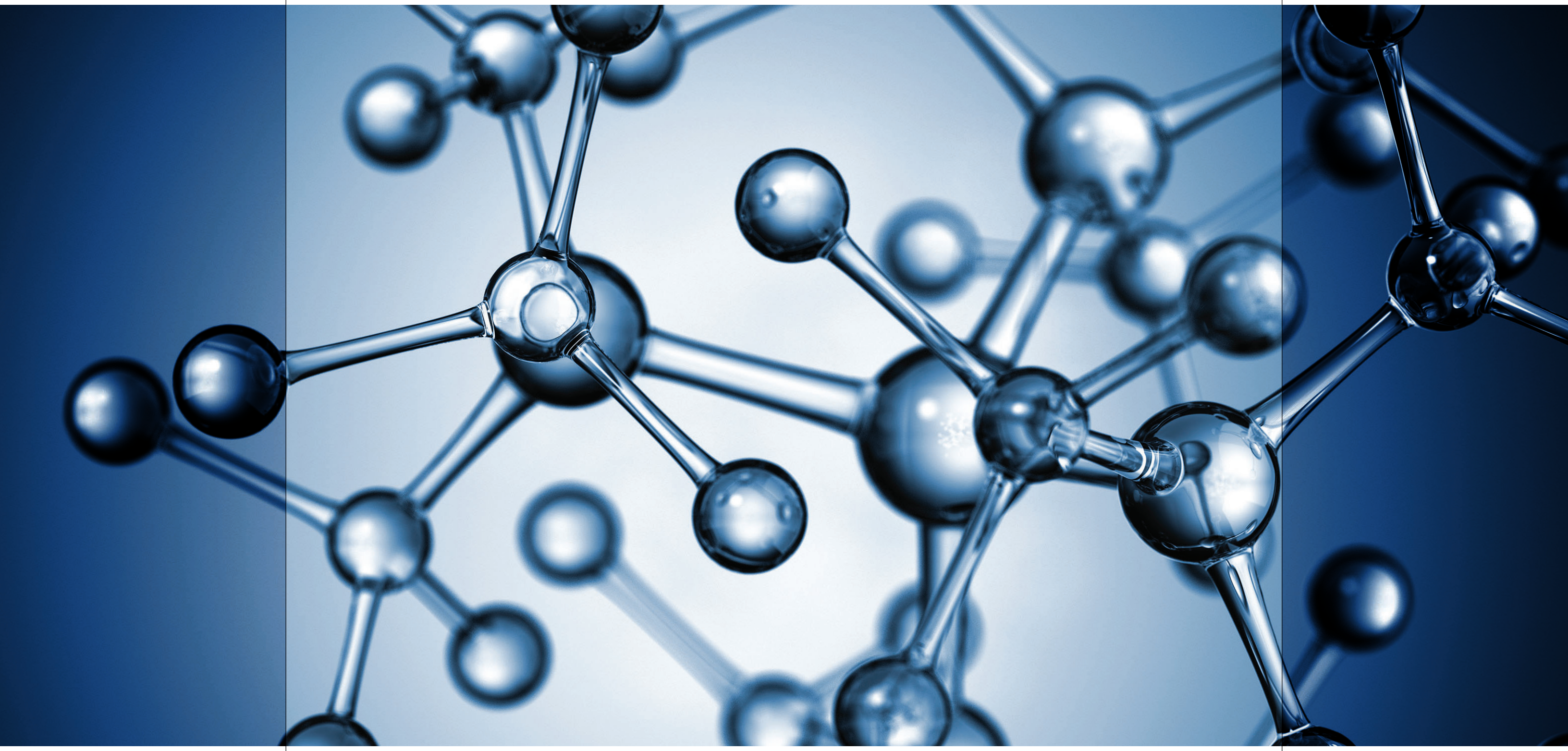
United-Guardian, Inc.

EXCELLENCE THROUGH INNOVATION®



Cosmetic Ingredients | Medical Lubricants | Pharmaceutical Products

Annual Report 2022

UNITED-GUARDIAN, INC.

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President & Chief Executive Officer

PETER A. HILTUNEN
Senior Vice President
Production and Procurement

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Treasurer
Secretary

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R&D

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New York, NY

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ANDREW A. BOCCONE
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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. The cosmetic ingredients are marketed through a worldwide network of distributors and are used by many of the major multinational cosmetic companies. The pharmaceutical products 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 lubricants 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 LUBRAJEL® line of hydrogels is the company's most important product line and are used in both personal care and medical products. Innovation is a central theme of United-Guardian's strategy. The focus, at this time, is to continue expanding the pipeline of classic and naturally derived hydrogel products to address unmet market and customer needs. 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. United-Guardian has received ISO 9001:2015 registration from DQS 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.

LETTER TO STOCKHOLDERS

Dear Stockholder,

After my first five months as President and CEO of United-Guardian, I would like to take a moment to reflect on the worldwide events that shaped 2022 and the actions we have taken to position United-Guardian for growth in 2023 and beyond.

Early in my career, I worked for International Specialty Products (ISP), now Ashland, United-Guardian's main distributor for its cosmetic ingredient line of products. At ISP, I launched and marketed some of the first products that United-Guardian offered to the global personal care market, and now I have the privilege of leading United-Guardian.

2022 was a difficult year for the global economy in general, and consequently for United-Guardian. Global economic activity experienced a sharper-than-expected slowdown, accompanied by the highest rate of inflation in several decades. The tightening financial conditions, the Russian invasion of Ukraine, and the lingering COVID-19 pandemic all negatively impacted the global economic growth.

United-Guardian's income for FY 2022 was down by 45% compared to FY 2021. Net sales for the year decreased by 9% from $13,929,629 in 2021 to $12,698,503 in 2022, generating net income of $2,569,512 ($0.56 per share) in 2022 compared to $4,658,542 ($1.01 per share) in 2021. The decrease in United-Guardian's net income in 2022 compared to 2021 was primarily the result of a decrease in revenue from sales of our cosmetic ingredients business combined with a decline in the value of our marketable securities portfolio. The principal factors that negatively impacted sales of our cosmetic ingredients were: 1) overstocking by certain contract manufacturers in 2021 to avoid potential supply chain issues in 2022, and 2) lower demand in Asia, especially in China, due to China's zero-COVID policy that was in place for much of 2022. Our pharmaceutical and medical lubricants businesses remained strong in 2022.

Despite dealing with the economic disruption during 2022, United-Guardian paid dividends of $0.37 per share in June 2022, and dividends of $0.31 per share in December 2022. This is the 28th consecutive year that United-Guardian has paid dividends.

I have worked in the personal care industry for more than 20 years. I strongly believe that our classic and naturally derived hydrogel technologies offer unique benefits to this market and that our cosmetic ingredients business will rebound as we implement our strategy. The Lubrajel Natural line of hydrogels addresses increasing consumer demand for plant-derived ingredients and materials that "leave no trace" in the environment at the end of their product life.

We have well-established personal care and medical lubricants businesses, and we intend to capitalize on the existing product portfolios and build additional capabilities to strengthen these businesses. Innovation is a central theme of our strategy to secure long-term growth, so we will continue expanding our pipeline of classic and naturally derived hydrogel products to address unmet market and customer needs. Technical collaboration with our distributors and customers is essential. We also plan to establish strategic collaborations with other ingredient suppliers to develop new value-added technologies.

Our hydrogels offer unique benefits such as premium lubrication, sensory enhancement, and moisturization. These product benefits are desirable in different markets. We are very excited to announce that in the second quarter of 2023, we will be launching Natrajel™ hydrogels, a line of products for the sexual wellness market. This market is experiencing rapid growth and we want to “ride the wave”. Natrajel™ hydrogels include classic and naturally derived products. The naturally derived products are made with natural and sustainable raw materials using clean and efficient manufacturing processes.

We are also implementing growth initiatives in our pharmaceutical business. For our primary pharmaceutical product, Renacidin, we are exploring the possibility of growing by geographic expansion. For our other pharmaceutical product, Clorpactin WCS-90, we are continuing to work with Sign Fracture, an outstanding non-profit organization that gives the injured poor access to fracture surgery by donating orthopedic education and implant systems to surgeons in developing countries.

After a difficult fourth quarter of 2022, and in spite of the continued challenges facing the world in the first quarter of 2023, we expect to increase sales in fiscal year 2023 with our new growth initiatives in place. We will continue a path of change, making choices that are sustainable, innovative and deliver business growth.

Thank you all for your trust in United-Guardian and in me. We look forward to another profitable year in 2023.

Sincerely,

Beatriz

Beatriz Blanco
President and CEO

STATEMENTS OF INCOME

	Years ended December 31, 2022	2021
Net sales	$12,698,503	$13,929,629
Costs and expenses:		
Cost of sales	5,996,376	5,747,931
Operating expenses	2,174,127	2,035,970
Research and development	490,770	478,642
Total costs and expenses	**8,661,273**	**8,262,543**
Income from operations	**4,037,230**	**5,667,086**
Other (loss) income:		
Investment income	236,695	233,857
Net loss on marketable securities	(1,046,245)	(23,018)
Total other (loss) income	**(809,550)**	**210,839**
Income before provision for income taxes	**3,227,680**	**5,877,925**
Provision for income taxes	658,168	1,219,383
Net income	**$2,569,512**	**$4,658,542**
Earnings per common share (basic and diluted)	$ 0.56	$ 1.01
Weighted average shares (basic and diluted)	4,594,319	4,594,319

See Notes to Financial Statements

BALANCE SHEETS

ASSETS

	December 31, 2022	December 31, 2021
Current assets:		
Cash and cash equivalents	$ 830,452	$ 531,213
Marketable securities	5,653,516	7,635,463
Accounts receivable, net of allowance for doubtful accounts of $20,063 in 2022 and $20,252 in 2021	1,427,576	1,813,346
Inventories (net)	1,672,012	1,410,789
Prepaid expenses and other current assets	201,846	192,579
Prepaid income taxes	185,228	—
Total current assets	**9,970,630**	**11,583,390**
Deferred income taxes, net	**110,544**	**—**
Property, plant, and equipment:		
Land	69,000	69,000
Factory equipment and fixtures	4,585,055	4,605,742
Building and improvements	2,895,742	2,853,718
Total property, plant and equipment	**7,549,797**	**7,528,460**
Less accumulated depreciation	6,990,636	6,869,598
Total property, plant, and equipment, net	**559,161**	**658,862**
TOTAL ASSETS	**$10,640,335**	**$12,242,252**

See Notes to Financial Statements

BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2022	December 31, 2021
Current liabilities:		
Accounts payable	$ 30,415	$ 410,894
Accrued expenses	1,322,056	1,627,390
Deferred revenue	—	190,164
Income taxes payable	—	88,738
Dividends payable	21,220	20,575
Total current liabilities	**1,373,691**	**2,337,761**
Deferred income taxes (net)	—	83,222
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, 2022 and 2021, respectively	459,432	459,432
Retained earnings	8,807,212	9,361,837
Total stockholders' equity	**9,266,644**	**9,821,269**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$10,640,335**	**$12,242,252**

See Notes to Financial Statements

STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended December 31, **2022** and **2021**

	Common stock		Retained	
	Shares	Amount	earnings	Total
Balance, January 1, 2021	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
Net income	—	—	2,569,512	2,569,512
Dividends declared, not paid ($0.68 per share)	—	—	(645)	(645)
Dividends declared and paid ($0.68 per share)	—	—	(3,123,492)	(3,123,492)
Balance, December 31, 2022	4,594,319	$459,432	$ 8,807,212	$ 9,266,644

See Notes to Financial Statements

STATEMENTS OF CASH FLOWS

	Years ended December 31, 2022	2021
Cash flows from operating activities:		
Net income	$ 2,569,512	$ 4,658,542
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	135,396	145,977
Loss (gain) on sale of asset	2,445	(14,799)
Net loss on marketable securities	1,046,245	23,018
Allowance for doubtful accounts	(189)	6,235
Reserve for inventory obsolescence	29,000	—
Deferred income taxes	(193,766)	(68,462)
Decrease (increase) in operating assets:		
Accounts receivable	385,959	(431,883)
Inventories	(290,223)	4,984
Prepaid expenses and other current assets	(9,267)	(31,371)
Prepaid income taxes	(185,228)	99,107
(Decrease) increase in operating liabilities:		
Accounts payable	(380,479)	379,094
Accrued expenses	(305,334)	263,933
Deferred revenue	(190,164)	190,164
Income taxes payable	(88,738)	88,738
Net cash provided by operating activities	**2,525,169**	**5,313,277**
Cash flows from investing activities:		
Acquisitions of property, plant and equipment	(75,179)	(116,375)
Proceeds from sale of asset	37,039	—
Purchases of marketable securities	(1,931,969)	(4,219,760)
Proceeds from sales of marketable securities	2,867,671	4,152,660
Net cash provided by (used in) investing activities	**897,562**	**(183,475)**
Cash flows from financing activities:		
Dividends paid	(3,123,492)	(5,190,033)
Net cash used in financing activities	(3,123,492)	(5,190,033)
Net increase (decrease) in cash and cash equivalents	299,239	(60,231)
Cash and cash equivalents, beginning of year	531,213	591,444
Cash and cash equivalents, end of year	$ 830,452	$ 531,213
Supplemental disclosure of cash flow information		
Taxes paid	$ 1,125,000	$ 1,100,000
Supplemental disclosure of non-cash items:		
Dividends payable	$ 645	$ 1,547
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 92% and 93% of the Company's sales for the years ended December 31, 2022 and December 31, 2021, respectively. Lubrajel accounted for approximately 59% and 64% of the Company's sales for the years ended December 31, 2022 and December 31, 2021, respectively, and Renacidin accounted for approximately 33% and 29% of the Company's sales for the years ended December 31, 2022 and December 31, 2021, respectively.

Impact of the Coronavirus Pandemic, Global Supply Chain Instability and Inflation

While the coronavirus pandemic continues to impact certain areas of the Company's operations, the current impact on the Company's financial performance is coming primarily from 1) higher raw material costs and increased shipping costs, which had an impact on the Company's gross profit margins during 2022 and 2) a decrease in cosmetic ingredient sales in China due to China's zero-COVID mandate that was in effect for a substantial part of 2022.

The pandemic did not affect the Company's ability to obtain raw materials but due to supply chain instability, the Company experienced longer lead times and higher prices for many of its raw materials. The increased raw material prices had an impact on the Company's gross profit margins in 2022 and may continue to have an impact on gross profit margins in upcoming quarters. In response to the rising raw material prices the Company has instituted price increases on many of its products, which will help to reduce the impact on the Company's gross margins in the future.

As a result of the lingering effects of the coronavirus pandemic as described above, combined with global supply chain instability, there continues to be uncertainty in regard to its future potential impact on the Company's operations or financial results. The Company believes that it is still unable to provide an accurate estimate or projection as to what the future impact of the pandemic will be on its future operations or financial results.

While it is unknown whether inflation will continue to increase or will begin to decrease during 2023, 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 results of operations.

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, 2022 and 2021, the allowance for doubtful accounts receivable amounted to $20,063 and $20,252, 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, 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 2022 and 2021, 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. 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 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, 2022 and 2021, the Company had an allowance of $369,154 and $313,904, respectively, for possible outdated material returns, which is included in accrued expenses.

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 was recorded as deferred revenue on the balance sheet. The related performance obligation associated with this payment was satisfied in the first quarter of 2022. No such advanced payment exists at December 31, 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 are as follows:

	Years ended December 31, 2022	2021
Cosmetic ingredients	$ 5,167,909	$ 6,872,714
Pharmaceuticals	4,943,605	4,735,324
Medical lubricants	2,470,163	2,171,204
Industrial and other	116,826	150,387
Total Net Sales	$12,698,503	$13,929,629

The Company's cosmetic ingredients are currently marketed worldwide by five distributors, of which the United States ("U.S.")-based ASI purchases the largest volume. For the years ended December 31, 2022 and 2021, approximately 25% and 20%, respectively, of the Company's sales were to (a) its foreign-based distributors (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 lubricants sold directly by the Company.

Disaggregated sales by geographic region are as follows:

	Years ended December 31, 2022	2021
United States*	$ 9,537,124	$11,159,341
Other countries	3,161,379	2,770,288
Net Sales	$12,698,503	$13,929,629

* 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, 66% of ASI's sales in 2022 were to customers in foreign countries, compared with 74% in 2021. ASI's largest foreign market in both 2022 and 2021 was China, which accounted for approximately 38% of ASI's sales in 2022 and 42% of sales in 2021.

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, 2022, approximately $105,000 exceeded the FDIC limit.

Dividends

On May 10, 2022, the Company's Board of Directors declared a semi-annual cash dividend of $0.37 per share, which was paid on June 1, 2022 to all stockholders of record as of May 23, 2022. On November 15, 2022, the Company's Board of Directors declared a semi-annual cash dividend of $0.31 per share, which was paid on December 7, 2022, to all stockholders of record as of November 28, 2022. In 2022, the Company declared a total of $3,124,137 in dividends, of which $3,123,492 was paid. The balance of $645 is payable to stockholders whose old Guardian Chemical shares have not yet been exchanged to United-Guardian, Inc. shares and are pending escheatment.

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 Chemical 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 2022 and 2021, 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, 2022 and 2021.

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, 2022, four of the Company's pharmaceutical wholesalers and cosmetic ingredient distributors accounted for approximately 72% of the Company's gross sales during the year and approximately 81% of its outstanding accounts receivable at December 31, 2022. For the year ended December 31, 2021, the same four pharmaceutical wholesalers and cosmetic ingredient distributors accounted for a total of approximately 75% of the Company's gross sales during the year and 80% of its outstanding accounts receivable at December 31, 2021.

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. During 2022, the Company periodically experienced longer lead times due to shipping delays and supply chain issues related to the pandemic. The Company has six major raw material vendors that collectively accounted for approximately 90% and 94% of the raw material purchases by the Company in 2022 and 2021, 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, 2022 and 2021, 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, 2022 and 2021, the Company did not record any tax-related interest or penalties. The Company's tax returns for 2019 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 $97,000 and $82,000 for the years ended December 31, 2022 and 2021, respectively.

Advertising Expenses

Advertising costs are expensed as incurred. For the years ended December 31, 2022 and 2021, the Company incurred approximately $19,000 and $31,000, 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 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 does not expect that the implementation of this standard will have a material effect on its financial statements.

NOTE B
CASH AND CASH EQUIVALENTS

Cash and cash equivalents include currency on hand, demand deposits with banks or financial institutions, and short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present minimal risk of changes in value because of changes in interest rates. The following table summarizes the Company's cash and cash equivalents:

	Years ended December 31, 2022	2021
Demand Deposits	$333,275	$ 531,213
U.S. Treasury Bills (original 2-month maturity)	497,177	—
Total cash and cash equivalents	$830,452	$ 531,213

NOTE C
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, 2022 and 2021 are as follows:

	Years ended December 31, 2022	2021
Net losses recognized during the year on marketable securities	$(1,046,245)	$ (23,018)
Less: Net losses (gains) realized during the year on marketable securities sold during the period	364,074	(111,917)
Net unrealized loss recognized druing the reporting year on marketable securities still held at the reporting date	$ (682,171)	$(134,935)

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, 2022

	Cost	Fair Value	Unrealized (Loss) Gain
Equity Securities			
Fixed income mutual funds	$5,449,227	$4,924,497	$(524,730)
Equity and other mutual funds	717,165	729,019	11,854
Total equity securities	6,166,392	5,653,516	(512,876)
Total marketable securities	$6,166,392	$5,653,516	$(512,876)

December 31, 2021

	Cost	Fair Value	Unrealized 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	7,466,168	7,635,463	169,295
Total marketable securities	$7,466,168	$7,635,463	$ 169,295

Investment income is recognized when earned and consists principally of dividend income from equity and fixed income mutual funds and interest income on United States Treasury Bills. 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 $2,867,671 for the year ended December 31, 2022, which included realized losses of $364,074. Proceeds from the sale and redemption of marketable securities for the year ended December 31, 2021 amounted to $4,152,660, which included realized gains of $111,917.

NOTE D
INVENTORIES

Inventories consist of the following:

	December 31, 2022	December 31, 2021
Raw materials	$ 601,125	$ 494,348
Work in process	16,520	119,069
Finished products	1,054,367	797,372
Total Inventories	$1,672,012	$1,410,789

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, 2022 and December 31, 2021 are net of a reserve of $64,000 and $35,000, respectively.

NOTE E
INCOME TAXES

The provision for income taxes consists of the following:

	Years ended December 31, 2022	Years ended December 31, 2021
Current		
Federal	$ 850,344	$1,287,749
State	1,590	96
Total current provision for income taxes	851,934	1,287,845
Deferred		
Federal	(193,766)	(68,462)
State	—	—
Total deferred benefit from income taxes	(193,766)	(68,462)
Total provision for income taxes	$ 658,168	$1,219,383

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, 2022		2021	
	($)	Tax rate	($)	Tax rate
Income taxes at statutory federal income tax rate	$677,813	21.0%	$1,234,364	21.0%
State taxes, net of federal benefit	1,256	—	76	—
Research & development credits	(10,000)	(0.3)	(10,000)	(0.2)
Non-taxable dividends	(6,300)	(0.2)	(2,923)	(0.1)
Other, net	(4,601)	(0.1)	(2,134)	—
Provision for income taxes	$658,168	20.4%	$1,219,383	20.7%

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

	December 31, 2022	December 31, 2021
Deferred tax assets		
Allowance for doubtful accounts	$ 4,213	$ 4,253
Inventories	13,440	7,350
Accounts payable	6,367	86,288
R&D expenses	92,756	—
Unrealized loss on marketable securities	107,704	—
Accrued expenses	277,326	339,884
Total deferred tax assets	$ 501,806	$ 437,775
Deferred tax liabilities		
Accounts receivable	(304,004)	(385,056)
Prepaid expenses	(42,446)	(38,918)
Depreciation on property, plant and equipment	(44,812)	(61,471)
Unrealized gain on marketable securities	—	(35,552)
Total deferred tax liabilities	(391,262)	(520,997)
Net deferred tax asset (liability)	$ 110,544	$ (83,222)

NOTE F
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 $81,000 and $80,000 for the years ended December 31, 2022 and 2021, 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, 2022 and 2021, respectively, the Company's Board of Directors authorized discretionary contributions in the amount of $109,000 to be allocated among all eligible employees. Employees become vested in the discretionary contributions as follows: 20% after two years of employment, and 20% for each year of employment thereafter until the employee becomes fully vested after six years of employment. The discretionary contribution for 2022 will be paid in February 2023. The amount paid in February 2023 has been reduced by an amount paid to Ken Globus upon his retirement from the Company during 2022. The remaining contribution payable is included in accrued expenses at December 31, 2022.

NOTE G
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 lubricants, and industrial products. Each product category is marketed differently. The cosmetic ingredients are marketed through a global network of distributors. These distributors 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 distributors 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 include a urological product and a topical bioticide 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. 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 lubricants 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 companies that market 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 Company plans on discontinuing the sales of its industrial products in the second quarter of 2023.

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 "The 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 lubricants 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 "The United States" revenue number in the table below.

(a) Net Sales

	Years ended December 31, 2022	2021
Cosmetic Ingredients	$ 5,388,365	$ 6,872,714
Pharmaceuticals	5,929,216	5,748,244
Medical Lubricants	2,471,555	2,175,822
Industrial and other	116,826	150,387
Gross Sales	13,905,962	14,947,167
Less: Discounts and allowances	(1,207,459)	(1,017,538)
Net Sales	$12,698,503	$13,929,629

(b) Geographic Information

	Years ended December 31, 2022	2021
United States	$ 9,537,124	$11,159,341
Other countries	3,161,379	2,770,288
Net Sales	$12,698,503	$13,929,629

(c) Gross Sales to Major Customers

	Years ended December 31, 2022	2021
Customer A	$ 4,284,799	$ 5,641,279
Customer B	2,527,743	2,526,869
Customer C	1,613,597	1,522,882
Customer D	1,553,885	1,488,301
All other customers	3,925,938	3,767,836
Total Gross Sales	$13,905,962	$14,947,167

NOTE H
ACCRUED EXPENSES

Accrued expenses at December 31, 2022 and 2021 consist of:

	2022	2021
Bonuses	$ 175,496	$ 348,000
Distribution fees	395,536	359,550
Payroll and related expenses	53,475	292,560
Company 401(k) contribution	94,326	109,000
Annual report expenses	68,349	64,038
Audit fee	66,500	61,500
Reserve for outdated material returns	369,154	313,904
Sales rebates	80,926	56,857
Other	18,294	21,981
Total accrued expenses	$1,322,056	$1,627,390

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

As of December 31, 2022, the Company had a number of unconverted Guardian Chemical shares that would convert to approximately 447 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 447 shares that have not yet been exchanged or designated for escheatment as of December 31, 2022, and the Company will continue to do so as dividends are declared.

NOTE J
RELATED PARTY TRANSACTIONS

During the years ended December 31, 2022 and 2021, the Company paid PKF O'Connor Davies $14,500 and $19,500, respectively, for accounting and tax services. Lawrence Maietta, a partner at PKF O'Connor Davies, is a director of the Company.

For the year ended December 31, 2022, the Company paid Ken Globus, the Company's previous President and CEO, $20,000 for consulting services subsequent to his departure from the Company. The Company's consulting agreement with Ken Globus expires on May 31, 2023. Ken Globus is a director of the Company and currently serves as Chairman of the Board of Directors. In addition, in November 2022, Ken Globus purchased a used vehicle from the Company for $37,039.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

IMPACT OF THE CORONAVIRUS PANDEMIC, GLOBAL SUPPLY CHAIN INSTABILITY AND INFLATION

While the coronavirus pandemic continues to impact certain areas of our operations, the current impact on our financial performance is coming primarily from 1) higher raw material costs and increased shipping costs, which had an impact on our gross profit margins during 2022, and 2) a decrease in cosmetic ingredient sales in China due to China's zero-COVID mandate that was in effect for a substantial part of 2022.

The pandemic did not significantly affect our ability to obtain raw materials, but due to supply chain instability, we have experienced longer lead times and higher prices for many of our raw materials. The increased raw material prices had an impact on our gross profit margins in 2022 and may continue to have an impact on gross profit margins in upcoming quarters. In response to rising raw material prices, we have instituted price increases on many of our products, which will help to reduce the impact on our gross margins in the future.

As a result of the lingering effects of the coronavirus pandemic as described above, combined with global supply chain instability, there continues to be uncertainty regarding the potential impact on our operations or financial results. We believe that we are still unable to provide an accurate estimate or projection as to what the future impact of the pandemic will be on our future operations or financial results.

While it is unknown whether inflation will continue to increase or will begin to mitigate during 2023, continued inflation is likely to result in further increases in raw material costs, shipping costs, and internal labor costs, which could impact our future results of operations.

CRITICAL ACCOUNTING POLICIES

Our 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 us to make estimates and assumptions affecting the reported amounts of assets, liabilities, revenues, and expenses and the disclosure of contingent assets and liabilities. We use our historical experience and other relevant factors when developing our 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 our significant accounting policies. The following accounting policies are those that we consider critical to an understanding of the financial statements because their application places the most significant demands on management's judgment. Our financial results might have been different if other assumptions had been used or other conditions had prevailed.

Marketable Securities

Our marketable securities include investments in equity and fixed income mutual funds. Our 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. We evaluate our 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 our ability and intent to hold the investment for a period of time which may be sufficient for anticipated recovery of market value. We 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 2022 and 2021, we did not record an impairment charge regarding our investment in marketable securities because our management believes, based on an evaluation of the circumstances, that the decline in fair value below the cost of certain of our marketable securities is temporary.

Revenue Recognition

We record 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. Our principal source of revenue is product sales.

Our 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 our pharmaceutical products, include chargebacks from the United States Department of Veterans Affairs ("VA"), rebates in connection with our current participation in Medicare 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 2022 and 2021, we participated in various government drug rebate programs related to the sale of Renacidin®, our 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 us to sell our products at a discounted price, typically in the form of a rebate. Our 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, we recognize revenue from sales of our products when those products are shipped, which is when our performance obligation is satisfied. Our cosmetic products are shipped "Ex-Works" from our facility in Hauppauge, NY, and the risk of loss and responsibility for the shipment passes to the customer upon shipment. Sales of our medical lubricant products are deemed final upon shipment, and we have no obligation to repurchase or allow the return of these goods unless they are defective. Sales of our 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. We estimate an allowance for outdated material returns based on previous years' historical returns of our pharmaceutical products.

We do 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. We have 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. Our standard credit terms, which vary depending on the customer, range between 30 and 60 days. We use our judgment on a case-by-case basis to determine our ability to collect outstanding receivables and provide allowances for any receivables for which collection has become doubtful. As of December 31, 2022 and December 31, 2021, the allowance for doubtful accounts receivable was $20,063 and $20,252, 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.

We have distribution agreements with certain distributors of our pharmaceutical products that entitle those distributors to distribution and services-related fees. We record distribution fees, and estimates of distribution fees, as offsets to revenue.

Accounts Receivable Allowance

We perform ongoing credit evaluations of our customers and adjust credit limits, as determined by a review of current credit information. We continuously monitor collection and payments from customers and maintain an allowance for doubtful accounts based upon historical experience, anticipation of uncollectible accounts receivable and any specific customer collection issues that have been identified. While our credit losses have historically been low and within expectations, we 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 our significant customers would have a significant impact on our results of operations and cash flows.

Inventory Valuation Allowance

In conjunction with our 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 we believe that we have 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. We have performed an evaluation of our inventory on hand as of December 31, 2022, and believe the reserve is adequate to cover any slow-moving or obsolete inventory. We do not believe the value of our finished products, work in process or raw material inventories have been adversely affected by the current inflationary environment.

RESULTS OF OPERATIONS

Sales

Sales decreased by approximately 9%, from $13,929,629 in 2021 to $12,698,503 in 2022. The decrease in sales was primarily due to a decrease in sales of our cosmetic ingredient products, specifically a decrease of 28% in sales to our largest distributor, ASI, in 2022 compared with 2021.

(a) Cosmetic Ingredients

Sales of our cosmetic ingredients decreased by approximately 25%, from $6,872,714 in 2021, to $5,167,909 in 2022. The decrease in sales of cosmetic ingredients was caused by the following factors: 1) supply chain issues faced by certain contract manufactures caused them to overstock products in 2021 in order to avoid not being able to obtain products in 2022, which resulted in a reduction of purchases of these products by certain contract manufacturers in 2022, and 2) lower demand in Asia, especially in China, due to China's zero-COVID mandate that was in place for much of 2022. Sales to our other four distributors decreased by a net of approximately 11%, and sales to four of our small direct cosmetic ingredient customers decreased by approximately 54%.

We continue to experience global competition from Asian and European companies that manufacture and sell products that are competitive with our products. These competitive products are usually sold at a lower price than our products; however they may not compare favorably to the level of performance and quality of our products.

The strengthening of the U.S. dollar in 2022, which reached its highest level in 20 years, made our products less competitive, as they became more expensive in other countries. We continue to work closely with our network of distributors to price our products as competitively as possible and, when appropriate, to offer additional volume discounts and more aggressive pricing to maintain and increase sales and expand our customer base.

We expect that this competitive environment will continue in 2023 and we plan to enhance our competitive position by strengthening our core capabilities and investing in new products, especially in the area of naturally-derived products. We will also continue providing high-quality products, excellent technical support, and the reliability our customers have come to expect from us.

(b) Pharmaceuticals

Because there are fees, rebates, and allowances associated with sales of our two pharmaceutical products, Renacidin and Clorpactin, discussion of our pharmaceutical sales includes references to both gross sales (before fees, rebates and allowances) and net sales (after fees, rebates and allowances). Gross sales of our two pharmaceutical products, Renacidin and Clorpactin, together increased by 3%, from $5,748,244 in 2021 to $5,929,216 in 2022. Gross sales of Renacidin increased by 3%, from $5,041,460 in 2021 to $5,181,190 in 2022, and gross sales of Clorpactin increased by 6% from $706,784 in 2021 to $748,026 in 2022.

Net sales of our pharmaceutical products increased by approximately 4% in 2022 compared with the same period in 2021. The increase in net sales was due to the combination of 1) an increase in gross sales of both of our pharmaceutical products, and 2) a decrease in certain pharmaceutical-related rebates and allowances. The decrease in pharmaceutical-related rebates and allowances in 2022 was primarily due to a decrease in rebates on sales of our products to the VA and a reduction in sales returns.

(c) Medical Lubricants

Sales of our medical lubricants increased by approximately 14% in 2022, from $2,171,204 in 2021 to $2,470,163 in 2022. The increase in sales was driven by higher demand from one of our larger contract manufacturer customers located in China, whose sales doubled in 2022 compared to 2021.

(d) Industrial Products

Sales of our industrial products decreased by 22% in 2022 compared with 2021. We plan on discontinuing the manufacturing and sales of specialty industrial products in the second quarter of 2023. These products sales represent less than 2% of total sales.

Gross Profit on Sales

Gross profit on sales was 53% in 2022 compared with 59% in 2021. The decrease in gross profit was due to 1) a decrease in sales of our cosmetic ingredients in 2022 compared to 2021. These products carry a higher profit margin than our pharmaceutical products. In 2022, our pharmaceutical sales as a percentage of gross sales was 43% compared to 38% in 2021; 2) increased raw material and shipping costs in 2022 compared with 2021; 3) the recording of $206,621 in rebates payable to one of our marketing partners during 2022; and 4) the recording of a one-time Employee Retention Credit ("ERC") in the amount of approximately $105,000 in 2021, which reduced cost of sales during that period.

Operating Expenses

Operating expenses increased by approximately 7%, from $2,035,970 in 2021 to $2,174,127 in 2022. The increase was mainly attributable to the following factors: 1) increases in fees paid to the independent members of our Board of Directors during 2022 for special projects; 2) an increase in payroll and payroll related expenses, insurance expense and utilities; and 3) the recording of a one-time ERC in the amount of approximately $31,000 in 2021, which reduced operating expenses for that period. We anticipate that operating expenses will remain relatively consistent for 2023.

Research and Development Expenses

Research and development expenses increased by approximately 3%, from $478,642 in 2021 to $490,770 in 2022. The increase was primarily related to an increase in payroll and payroll related expenses combined with the recording of an ERC during 2021 in the amount of $28,000 which reduced R&D expenses for that period.

Investment Income

Investment income increased by approximately 1%, from $233,857 in 2021 to $236,695 in 2022. The increase was due to an increase in dividend income from both stock and bond mutual funds.

Net Loss on Marketable Securities

The net loss on marketable securities increased from a net loss of $23,018 in 2021 to a net loss of $1,046,245 in 2022. The increased loss was primarily due to 1) the recognition of increased unrealized losses during 2022 due primarily to rising interest rates combined with the downward trajectory of the financial markets during 2022. Our portfolio of marketable securities is predominantly invested in fixed income mutual funds. When interest rates began to rise during the year, the value of these funds declined; and 2) increased realized losses on those same fixed income mutual funds that were sold during the year. During 2021, we recognized realized gains of $111,917 from the sale of marketable securities, while in 2022, we recorded $364,074 in realized losses from the sale of marketable securities.

Provision for Income Taxes

The provision for income taxes decreased from $1,219,383 in 2021 to $658,168 in 2022. This decrease was due to a decrease in income before taxes. Our effective income tax rate was 20.4% in 2022 and 20.7% in 2021.

Liquidity and Capital Resources

Working capital decreased from $9,245,629 at December 31, 2021 to $8,596,939 at December 31, 2022. The current ratio increased from 5.0 to 1 at December 31, 2021 to 7.3 to 1 at December 31, 2022. The decrease in working capital was mainly due to a decrease in marketable securities and accounts receivable.

Accounts receivable (net of allowance for doubtful accounts) as of December 31, 2022 decreased from $1,813,346 in 2021 to $1,427,576 in 2022. The decrease in accounts receivable was due to a decrease in sales during the third and fourth quarter of 2022. The receivables turnover, or "Days Sales Outstanding", for 2022, was 47 days, compared with 42 days in 2021. The increase in Days Sales Outstanding was primarily due to an increase in the sales of our medical lubricant products in 2022. These products are primarily sold to customers located overseas and the payment terms for these customers is typically 60 days, as compared with 30-45 days for our domestic customers. The allowance for doubtful accounts receivable decreased from $20,252 in 2021 to $20,063 in 2022, and we believe that the net balance of our accounts receivable as of December 31, 2022 was, and continues to be, fully collectible.

We generated cash from operations of $2,525,169 in 2022 compared with $5,313,277 in 2021. The decrease in 2022 was primarily due to a decrease in net income in 2022 compared with 2021, combined with decreases in accounts payable, accrued expenses and deferred revenue.

Net cash provided by investing activities was $897,562 for the year ended December 31, 2022. Net cash used in investing activities was $183,475 for the year ended December 31, 2021. The increase in net cash provided by investing activities was mainly due an increase in net proceeds from the sale of marketable securities combined with a decrease in acquisitions of property, plant and equipment in 2022 compared with 2021.

Net cash used in financing activities was $3,123,492 and $5,190,033 for the years ended December 31, 2022 and 2021, respectively. The decrease was due to the payment of lower dividends in 2022 compared with 2021. During 2022, we paid dividends of $0.68 per share compared with $1.13 per share in 2021.

We believe that our working capital is sufficient to support our operating requirements for the next fiscal year. Our long-term liquidity position will be dependent upon our ability to generate sufficient cash flow from profitable , and we expect to continue to use our cash to make dividend payments, purchase marketable securities, and to take advantage of other opportunities that may arise that are in the best interest of our Company and our shareholders.

We expect to incur costs of approximately $100,000 in the first six months of 2023 in connection with an upgrade to our building sprinkler system.

We have no off-balance-sheet transactions that have, or are reasonably likely to have, a current or future effect on our 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

Our Common Stock is currently traded on the NASDAQ Global Market, under the symbol "UG".

Holders of Record

As of March 1, 2023, there were 371 holders of record of Common Stock.

Cash Dividends

On May 10, 2022, our Board of Directors declared a semi-annual cash dividend of $0.37 per share, which was paid on June 1, 2022 to all stockholders of record as of May 23, 2022. On November 15, 2022, our Board of Directors declared a semi-annual cash dividend of $0.31 per share, which was paid on December 7, 2022 to all stockholders of record as of November 28, 2022.

On May 18, 2021, our 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, our 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.

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, 2022 and 2021, 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, 2022 and 2021, 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, 2023

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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