2016 ANNUAL REPORT

UNITED-GUARDIAN, INC.

Excellence Through Innovation®

UNITED-GUARDIAN, INC.

Officers and Directors

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

ROBERT S. RUBINGER
Executive Vice President, Secretary,
Chief Financial Officer, Director of Product
Development, and Director

JOSEPH J. VERNICE
Vice President
Director of Technical Services
Manager of Research & Development

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

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

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

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

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

Corporate Profile

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

The company's most important product line is its extensive LUBRAJEL® line of water-based moisturizing and lubricating gel products. The focus of the company's research at the present time is on developing additional products for the personal care and health care markets.

Over the years the company has been issued over 32 patents. In addition to patent protection, the company also relies on proprietary manufacturing methods and product formulations, which are protected as trade secrets. It has also received ISO 9001:2008 registration from Underwriters Laboratories, Inc., indicating that its documented procedures and overall operations have attained the very high level of quality needed for this certification level.

PLEASE NOTE: This document contains both historical and "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements about the company's expectations or beliefs concerning future events, such as financial performance, business prospects, and similar matters, are being made in reliance upon the "safe harbor" provisions of that Act. Such statements are subject to a variety of factors that could cause our actual results or performance to differ materially from the anticipated results or performance expressed or implied by such forward-looking statements. For further information about the risks and uncertainties that may affect the company's business please refer to the company's reports and filings with the Securities and Exchange Commission.

2016 ANNUAL REPORT

to the stockholders of

UNITED-GUARDIAN, INC.

April 14, 2017

Dear Stockholder,

As most of you already know, 2016 was not as strong a year as we had hoped it would be, primarily because of the disappointing sales we experienced in the first half of the year. I will go into detail later in this letter about why the year progressed the way it did, and why we expect 2017 to be a better year.

Despite the slow start, it was still a profitable year for us, with net income of $2,581,142 ($0.56 per share) on sales of $10,776,867. In comparison, in 2015 we had net income of $4,606,929 ($1.00 per share) on sales of $14,006,244. Despite the lower earnings, the Board still felt confident enough about the future revenue of the company to distribute a total of $0.75 per share in dividends for the year, compared with the $1.00 per share that we distributed during 2015. Since the dividend payment exceeded the earnings for the year, stockholders' equity declined from $14,581,814 on December 31, 2015 to $13,820,489 as of December 31, 2016, but our balance sheet remains very strong, having ended the year with a very healthy current ratio of 13.4 to 1.

The decline in sales in the first half of 2016 was due primarily to a significant drop in sales of one of our products in China, which began in the fourth quarter of 2015 and continued into the third quarter of 2016. I have discussed this issue in previous stockholders' letters, but for those of you who might have become stockholders recently, this decline in sales was primarily the result of a regulatory issue in China that was unrelated to our product but which affected some of the finished products in which ours was also being used. As a result, many of those finished products had to be taken off the market and reformulated. Since our distributor for China, Ashland Specialty Ingredients ("ASI"), had based its inventory requirements on the demand it had experienced prior to the withdrawal from the market of some of those products, it resulted in ASI exporting to China significantly more product than it needed to fill the reduced demand. Although ASI continued to sell our product in China during this period, this excess inventory had to be reduced before it could bring in new product. As a result, there were no sales of that product to ASI for distribution in China from the end of the third quarter of 2015 until August 2016.

With that regulatory issue having been addressed, and the products that had been affected by it going back on the market during 2016, the overstock situation in China was gradually corrected. In August 2016 ASI resumed its purchases of products intended for sale in China, although at a lower rate than we had experienced during the first three quarters of 2015.

The situation in China was certainly very disappointing to us, but we have received assurances from ASI that it has addressed the inventory control issues that caused the problem. It is still too early to determine what the new level of sales for China will be, since the competitive situation in China over the past few years has increased as Asian competitors have marketed their products at very aggressive pricing levels. But ASI is actively promoting our products in China, and is determined to increase sales of our products there, despite the fact that we will probably have to be more competitive with our pricing in order to continue to compete in that marketplace. That is also the situation in other markets, such as Europe, where we are also seeing more competition than we had experienced in previous years, and we have already implemented more aggressive pricing structures when necessary to retain existing business or secure new business.

While our personal care product sales were not what we hoped they would be for the year, we did have good news in regard to our pharmaceutical products sales. As I have mentioned in previous letters, in December 2015 we received approval from the FDA to market our new 30mL single-dose size of Renacidin®, our most important pharmaceutical product, which is used primarily to prevent and to dissolve calcifications in urethral catheters and the urinary bladder. Previously it was available only in 500mL glass bottles. The new, single-dose unit was engineered to dispense the product directly into an indwelling catheter, eliminating the need to use a separate syringe to extract a small amount of product from the Company's previous 500mL glass bottle.

Sales of the new, sterile single-dose product began in April 2016, and it is already generating significantly more revenue than the product it replaced. We are hopeful that this more user-friendly packaging will enable us to continue to increase our revenue from Renacidin in the coming years.

We are continuing to work with our global marketing partners to develop new and innovative products for the personal care and medical markets. Our R&D efforts over the past few years have focused on developing "natural" ingredients, with Lubrajel® Natural being the first of those products. We are gradually starting to see an increase in demand for that product as cosmetic manufacturers begin to incorporate it into new cosmetic formulations. Our most recent product in this line, Lubrajel Marine, uses components derived from marine vegetation. That product, as well as the original Lubrajel Natural, have both been certified as "natural" by Ecocert, one of the global organizations responsible for certifying natural cosmetic ingredients. We believe that the Ecocert certification will make these products more attractive to potential customers looking to formulate "natural" cosmetic products.

Since the Lubrajel Marine was developed by us jointly with ASI, ASI will have the exclusive global marketing rights for the product. ASI is very excited about its sales potential, and is introducing and highlighting the product at the upcoming In-Cosmetics conference in London in April. However, like any new cosmetic ingredient, it can take 1-2 years for cosmetic companies to bring new products to market, so it is unlikely that we will see any significant income from this product until next year.

Here are some other products on which we have been working to further expand our product line:

- **Lubrajel Oil Natural**, a natural version of our current Lubrajel Oil, which has been our largest selling Lubrajel product for a number of years. We expect to have the formulation for this product finalized within the next few months, and hope to begin sampling to our distributors early in the third quarter of this year.
- **Preservative-free version of Lubrajel Oil,** which will be sold alongside our other preservative-free product, Lubrajel PF (also sold in France as "Norgel"). We believe that there is going to be increased demand for cosmetic ingredients that are completely preservative-free, since it makes it easier for cosmetic companies to formulate without concerns about incompatibilities between preservatives. Work on this project has just begun, but we feel that this could be a new area of growth for us if we are successful in our development efforts.
- **Lubrajel Terra**, a product consisting of polysaccharides sourced from soil-grown raw materials. This product is still in an early stage of development.
- A **natural preservative** than can be used to enhance the preservative properties of other commonly used preservatives. Initial results have been very positive, but there is still significant development work and testing that needs to be done before this product can be sampled.
- **Amla Complex**, which is a unique product that contains an extract of the Amla fruit (Indian Gooseberry), which is believed to have many health benefits, including improved skin health and healthier hair. The development work on this product has been completed and it is being evaluated by our marketing partners to determine market potential.

With the overstock situation in China behind us, we are optimistic that we will see an increase in sales in Asia this year. While we expect to continue to experience strong competition from Asian competitors, we also believe that our reputation for developing innovative, high-quality products and providing excellent technical support will help offset some of the pricing issues that will continue to confront us. We are also hopeful that we will see increased sales of Renacidin as the year progresses. We will continue to use our long experience in developing unique personal care ingredients to set ourselves apart from some of the lower-cost Asian competitors that we are competing against, and look forward to a strong year in 2017.

UNITED-GUARDIAN, INC.

Ken Globus

Ken Globus
President

UNITED-GUARDIAN, INC.

STATEMENTS OF INCOME

	Years ended December 31, 2016	2015
Net sales	$ **10,776,867**	$ 14,006,244
Costs and expenses:		
Cost of sales	**4,882,644**	5,202,158
Operating expenses	**1,852,833**	1,862,290
Research and development	**651,828**	648,211
Total costs and expenses	**7,387,305**	7,712,659
Income from operations	**3,389,562**	6,293,585
Other income (expense):		
Investment income	**306,505**	332,705
Loss from sale of asset	**---**	(879)
Total other income	**306,505**	331,826
Income from operations before provision for income taxes	**3,696,067**	6,625,411
Provision for income taxes	**1,114,925**	2,018,482
Net income	$ **2,581,142**	$ 4,606,929
Earnings per common share (basic and diluted)	$ **0.56**	$ 1.00
Weighted average shares (basic and diluted)	**4,594,319**	4,594,319

STATEMENTS OF COMPREHENSIVE INCOME

	Years ended December 31, 2016	2015
Net income	$ **2,581,142**	$ 4,606,929
Other comprehensive income (loss):		
Unrealized gain (loss) on marketable securities	**156,474**	(284,103)
Income tax (expense) benefit	**(53,201)**	96,595
Other comprehensive income (loss), net of tax	**103,273**	(187,508)
Comprehensive income	$ **2,684,415**	$ 4,419,421

See Notes to Financial Statements

UNITED-GUARDIAN, INC.

BALANCE SHEETS

ASSETS

	December 31, 2016	December 31, 2015
Current assets:		
Cash and cash equivalents	$ **424,301**	$ 1,080,489
Marketable securities	**10,218,009**	10,719,470
Accounts receivable, net of allowance for doubtful accounts of $16,943 in 2016 and $8,654 in 2015	**1,597,997**	934,754
Inventories (net)	**1,255,813**	1,293,642
Prepaid expenses and other current assets	**135,320**	160,533
Prepaid income taxes	**82,732**	95,767
Deferred income taxes	**254,517**	233,305
Total current assets	**13,968,689**	14,517,960
Property, plant, and equipment:		
Land	**69,000**	69,000
Factory equipment and fixtures	**4,342,629**	4,175,940
Building and improvements	**2,776,602**	2,776,602
Total property, plant and equipment	**7,188,231**	7,021,542
Less accumulated depreciation	**6,097,640**	5,925,429
Net property, plant, and equipment	**1,090,591**	1,096,113
Other assets (net)	**59,295**	74,118
Total assets	$ **15,118,575**	$ 15,688,191

See Notes to Financial Statements

UNITED-GUARDIAN, INC.

BALANCE SHEETS
(continued)

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2016	December 31, 2015
Current liabilities:		
Accounts payable	$ **82,821**	$ 96,815
Accrued expenses	**848,328**	785,623
Dividends payable	**114,802**	105,929
Total current liabilities	**1,045,951**	988,367
Deferred income taxes	**252,135**	118,010
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, 2016 and 2015, respectively	**459,432**	459,432
Accumulated other comprehensive income	**175,634**	72,361
Retained earnings	**13,185,423**	14,050,021
Total stockholders' equity	**13,820,489**	14,581,814
Total liabilities and stockholders' equity	$ **15,118,575**	$ 15,688,191

See Notes to Financial Statements

UNITED-GUARDIAN, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended December 31, 2016 and 2015

	Common stock Shares	Common stock Amount	Accumulated other comprehensive income	Retained earnings	Total
Balance, January 1, 2015	4,596,439	$ 459,644	$ 259,869	$ 14,017,425	$ 14,736,938
Change in unrealized gains on marketable securities, net of deferred income tax benefit of $96,595	---	---	(187,508)	---	(187,508)
Net income	---	---	---	4,606,929	4,606,929
Shares surrendered	(2,120)	(212)	---	212	---
Reimbursement of overpaid prior year dividends	---	---	---	21,894	21,894
Dividends declared, not paid	---	---	---	(6,975)	(6,975)
Dividends declared and paid	---	---	---	(4,589,464)	(4,589,464)
Balance, December 31, 2015	4,594,319	$ 459,432	$ 72,361	$ 14,050,021	$ 14,581,814
Change in unrealized gains on marketable securities, net of deferred income tax of $53,201	**---**	**---**	**103,273**	**---**	**103,273**
Net income	**---**	**---**	**---**	**2,581,142**	**2,581,142**
Dividends declared, not paid	**---**	**---**	**---**	**(8,873)**	**(8,873)**
Dividends declared and paid	**--**	**---**	**---**	**(3,436,867)**	**(3,436,867)**
Balance, December 31, 2016	**4,594,319**	**$ 459,432**	**$ 175,634**	**$ 13,185,423**	**$ 13,820,489**

See Notes to Financial Statements

UNITED-GUARDIAN, INC.

STATEMENTS OF CASH FLOWS

	Years ended December 31,	
	2016	2015
Cash flows from operating activities:		
Net income	$ **2,581,142**	$ 4,606,929
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**187,035**	173,484
Realized loss (gain) on sales of marketable securities	**1,011**	(2,395)
Realized loss on sale of asset	**---**	879
Bad debt (recovery)	**8,289**	(21,240)
Deferred income taxes	**59,712**	(22,369)
Increase (decrease) in cash resulting from changes in operating assets and liabilities:		
Accounts receivable	**(671,532)**	679,746
Inventories	**37,829**	(56,488)
Prepaid expenses and other current and non-current assets	**25,213**	(918)
Prepaid income taxes	**13,035**	(65,124)
Accounts payable	**(13,995)**	(44,296)
Accrued expenses	**62,705**	(48,236)
Net cash provided by operating activities	**2,290,444**	5,199,972
Cash flows from investing activities:		
Acquisitions of property, plant and equipment	**(166,689)**	(62,573)
Purchases of marketable securities	**(2,309,935)**	(5,556,065)
Proceeds from sales of marketable securities	**2,966,859**	3,944,388
Net cash provided by (used in) investing activities	**490,235**	(1,674,250)
Cash flows from financing activities:		
Dividends received on unconverted shares	**---**	120,848
Dividends paid	**(3,436,867)**	(4,589,464)
Net cash used in financing activities	**(3,436,867)**	(4,468,616)
Net decrease in cash and cash equivalents	**(656,188)**	(942,894)
Cash and cash equivalents, beginning of year	**1,080,489**	2,023,383
Cash and cash equivalents, end of year	$ **424,301**	$ 1,080,489

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

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

Nature of Business

United-Guardian, Inc. (the "Company") is a Delaware corporation that, through its Guardian Laboratories Division, manufactures and markets cosmetic ingredients, personal care products, pharmaceuticals, medical lubricants, health care products, and specialty industrial products. It also conducts research and product development, primarily related to the development of new and unique cosmetic and personal care products. The Company's research and development department also modifies, refines, and expands the uses for existing products, with the goal of further developing the market for the Company's products. Two major product lines, LUBRAJEL® and RENACIDIN® IRRIGATION ("RENACIDIN") together accounted for approximately 93% and 95% of net sales for the years ended December 31, 2016 and December 31, 2015, respectively. LUBRAJEL accounted for approximately 66% and 85% of net sales for the years ended December 31, 2016 and December 31, 2015, respectively, and RENACIDIN accounted for approximately 27% and 10% of net sales for the years ended December 31, 2016 and December 31, 2015, respectively.

Accounts Receivable and Reserves

The carrying amount of accounts receivable is reduced by a valuation allowance that reflects our best estimate of the amounts that will not be collected. The reserve for accounts receivable comprises the allowance for doubtful accounts and sales returns. In addition to reviewing delinquent accounts receivable, we consider many factors in estimating our reserve, including historical data, experience, customer types and credit worthiness, and economic trends. From time to time, we adjust our assumptions for anticipated changes in any of these or other factors expected to affect collectability.

Revenue Recognition

The Company recognizes revenue when products are shipped, title and risk of loss pass to customers, persuasive evidence of a sales arrangement exists, and collections are reasonably assured. All products are shipped Ex Works (transportation costs from the Company's facility in Hauppauge, NY, and risk of loss from the time the goods are made available to the customer at the Company's facility, are the customer's responsibility). Shipments are only made after confirmation that a valid purchase order has been received and that the future collection of the sale amount is reasonably assured. All sales of the Company's products are deemed final, and there is no obligation on the part of the Company to repurchase or allow the return of the goods unless they are defective. The Company does not make sales on consignment, and the collection of the proceeds of the sale is not contingent upon the customer being able to sell the goods to a third party.

Any allowance for returns is taken as a reduction of sales within the same period the revenue is recognized. Such allowances are based on historical experience. The Company has not experienced significant fluctuations between estimated allowances and actual activity.

During 2015 the Company had offered a discounted price to a significant customer of ASI in Canada for one of its LUBRAJEL products in exchange for a commitment to purchase a specific amount of product

during the year. Since that customer did not attain the level of purchases required for that rebate, ASI was obligated to return to the Company the rebate that was given to that customer, in the amount of $88,360.

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 inception. 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, 2016, approximately $277,000 exceeded the FDIC limit.

Dividends

On May 18, 2016, the Company's Board of Directors declared a semi-annual cash dividend of $0.35 per share, which was paid on June 15, 2016 to all stockholders of record as of June 1, 2016. On November 30, 2016, the Company's Board of Directors declared a semi-annual cash dividend of $0.40 per share, which was paid on December 19, 2016, to all stockholders of record as of December 12, 2016. In 2016 the Company declared a total of $3,445,740 in dividends, of which $3,436,867 was paid. The balance of $8,873 is payable to stockholders who could not be located at the time the dividend was paid and is being held by the Company for possible future payment.

On May 13, 2015, the Company's Board of Directors declared a semi-annual cash dividend of $0.50 per share, which was paid on June 15, 2015 to all stockholders of record as of June 1, 2015. On November 18, 2015, the Company's Board of Directors declared a semi-annual cash dividend of $0.50 per share, which was paid on December 15, 2015 to all stockholders of record as of December 1, 2015. In 2015 the Company declared a total of $4,596,439 in dividends, of which $4,589,464 was paid. The balance of $6,975 is payable to stockholders who could not be located at the time the dividend was paid, and is being held by the Company for possible future payment.

Supplemental Disclosures of Cash Flow Information and Non-cash Investing and Financing Activities

Cash payments for income taxes were $1,050,000 and $2,125,000 for the years ended December 31, 2016 and 2015, respectively.

The Company has a number of unconverted shares of one of its previous corporate entities, Guardian Chemical Corporation ("Guardian"), that would convert to approximately 11,106 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. Since the early 1990's, the Company has been paying accumulated dividends directly to those shareholders as those shares were converted, while at the same time its transfer agent was holding duplicate funds to cover those same payments (as well as future payments for Guardian shares that had not yet been converted). In September 2015 it was agreed that those duplicate funds would be returned to the Company, and the Company recorded a receivable from the transfer agent in the amount of $120,848. Of that amount, $21,894 was added to retained earnings to account for the amount that had been previously exchanged and paid, and the balance of $98,954 will continue to be accounted for as a potential liability in the event that one or more of the holders of that Guardian stock can be located and request conversion of their Guardian shares, in which case the accumulated dividends will be paid to them and the liability reduced accordingly. Payment of the amount owed to the Company by its transfer agent was received in October

2015. The Company is presently researching its options in regard to the distribution of the funds it is continuing to hold, in the event the remaining holders of Guardian stock cannot be located. The Company will continue to accumulate a dividend payable on the above shares as dividends are declared. The Company accrued an additional $8,873 and $6,975, during 2016 and 2015 respectively, on these shares.

Marketable Securities

Marketable securities include investments in equity and fixed income mutual funds, and government securities, all of which have a high degree of liquidity, are classified as "Available for Sale" securities, and are reported at their fair values. Unrealized gains and losses on "Available for Sale" securities are reported as accumulated other comprehensive income (loss) in stockholders' equity, net of the related tax effects. Investment income is recognized when earned. Realized gains and losses on sales of investments and declines in value judged to be other than temporary, if any, are reported in other income (loss) with cost being determined on a specific identification basis. Fair values are based on quoted market prices. The Company evaluates its investments periodically for possible impairment and reviews factors such as the length of time and extent to which fair value has been below cost basis and the Company's ability and intent to hold the investment for a period of time which may be sufficient for anticipated recovery in market value.

Inventories

Inventories are valued at the lower of cost or current market value. Cost is determined using the average cost method, which approximates cost determined by the first-in, first-out ("FIFO") method. Inventory costs include material, labor and factory overhead.

Property, Plant and Equipment

Property, plant and equipment are carried at cost, less accumulated depreciation. Major replacements and betterments are capitalized, while routine maintenance and repairs are expensed as incurred. Assets are depreciated under both accelerated and straight-line methods. Depreciation charged as a result of using accelerated methods was not materially different than that which would result from using the straight-line method for all periods presented. Certain factory equipment and fixtures are constructed by the Company using purchased materials and in-house labor. Such assets are capitalized and depreciated on a basis consistent with the Company's purchased fixed assets.

Estimated useful lives are as follows:

Factory equipment and fixtures	5 - 7 years
Building	40 years
Building improvements	Lesser of useful life or 20 years

Impairment of Long-Lived Assets

Long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. No impairments were necessary at December 31, 2016 and 2015.

Other Assets (net)

Other assets at December 31, 2016 represents the amount expended in connection with the development of the new dosage form of RENACIDIN. The Company began amortizing these costs in the first quarter of 2016. At December 31, 2016 accumulated amortization for such assets amounted to $14,823.

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, 2016, two of the Company's distributors and marketing partners accounted for approximately 47% of the Company's net sales during the year, and 36% of its outstanding accounts receivable at year end. For the year ended December 31, 2015, the same two distributors and marketing partners accounted for a total of approximately 66% of the Company's net sales during the year, and 20% of its outstanding accounts receivable at year end.

Vendor Concentration

Most of the principal raw materials used by the Company consist of common industrial organic and inorganic chemicals and are available in ample supply from numerous sources. However, there are some raw materials used by the Company that are not readily available or require long lead times. The Company has five major raw material vendors that collectively accounted for approximately 85% and 89% of the raw material purchases by the Company in 2016 and 2015, 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 of 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, 2016 and 2015, 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, 2016 and 2015 the Company did not record any interest or penalties. The Company's tax returns are subject to examination by the United States Internal Revenue Service and by the State of New York for years 2013 through 2016.

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 $84,000 and $94,000 for the years ended December 31, 2016 and 2015, respectively.

Advertising Expenses

Advertising expenses are expensed as incurred. During 2016 and 2015 the Company incurred approximately $25,000 and $18,000, respectively, in advertising expenses.

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.

Use of Estimates

In preparing financial statements in conformity with U.S. generally accepted accounting principles, 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 revenues and expenses during the reporting period. Actual results could differ from those estimates. Such estimated items include the allowance for bad debts, possible impairment of marketable securities, and the allocation of overhead.

New Accounting Standards

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers." This standard applies to any entity that uses the guidance of Generally Accepted Accounting Principles ("GAAP") for entering into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. It requires that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to receive for the exchange of goods or services. In August

2015, the FASB issued ASU 2015-14, deferring the effective date of implementation to annual periods beginning after December 15, 2017. The Company is still evaluating the potential impact on the Company's financial statements.

In August 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements-Going Concern. Disclosure of Uncertainties about Entity's Ability to Continue as a Going Concern." Currently, GAAP lacks guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern. This amendment now provides guidance by providing a definition of substantial doubt, requires evaluation by management every reporting period for going concern issues, provides principles for considering any mitigating effects implemented by management, and the disclosures required for the assessment period of one year after issuance of the financial statements. This update becomes effective for interim and annual recording periods beginning after December 15, 2016, with early application permitted. The update was adopted for recording periods starting January 2015, and had no material impact on the Company's financial statements.

In November 2015, the FASB issued ASU 2015-17, "Income Taxes, Balance Sheet Classifications of Deferred Taxes." This amendment simplifies the presentation of deferred taxes by requiring that all deferred tax liabilities and assets now be recorded as noncurrent. This amendment is effective for interim and annual reporting periods beginning after December 15, 2016 with early adoption permissible. The Company adopted this amendment effective January 2017. This amendment will have no material impact on the Company's financial statements.

In July 2015, the FASB issued ASU 2015-11, "Inventory. Simplifying the Measurement of Inventory." This amendment only applies to entities that use the first-in, first-out (FIFO) or average cost methods of valuing inventory. Entities should now measure inventory at the lower of cost or net realizable value. This amendment aligns measurement of inventory in GAAP with the International Financial Reporting Standards (IFRS). This amendment is effective for annual periods beginning after December 15, 2016 with early adoption permitted. The Company adopted this amendment in January 2017 and is evaluating the potential impact on the Company's financial statements.

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

In June 2016, the FASB issued ASU-2016-13 "Financial Instruments – Credit Losses". This guidance affects organizations that hold financial assets and net investments in leases that are not accounted for at fair value with changes in fair value reported in net income. The guidance requires organizations to measure all expected credit losses for financial instruments at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. It is effective for fiscal years beginning after December 15, 2019. The Company is evaluating the potential impact on the Company's financial statements.

NOTE B - MARKETABLE SECURITIES

The fair values of the Company's marketable securities are determined in accordance with 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 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 following available-for-sale securities, which comprise all of the Company's marketable securities, are re-measured to fair value on a recurring basis and are valued using Level 1 inputs using quoted prices (unadjusted) for identical assets in active markets:

December 31, 2016	Cost	Fair Value	Unrealized Gain/(Loss)
Available for sale:			
Fixed income mutual funds	**$ 9,339,352**	**$ 9,457,286**	**$ 117,934**
Equity and other mutual funds	**612,545**	**760,723**	**148,178**
Total Investments	**$ 9,951,897**	**$ 10,218,009**	**$ 266,112**
December 31, 2015			
Available for sale:			
Fixed income mutual funds	$ 9,968,948	$ 9,900,587	$ (68,361)
Equity and other mutual funds	640,884	818,883	177,999
Total Investments	$ 10,609,832	$ 10,719,470	$ 109,638

Proceeds from the sale and redemption of marketable securities amounted to $2,966,859 and $3,944,388 for the years ended December 31, 2016 and 2015, respectively. Losses of $1,011 and gains of $2,395 were realized for the years ended December 31, 2016 and 2015, respectively.

Investment income consisted principally of realized gains and losses, interest income from fixed income mutual funds, and dividend income from equity and other mutual funds.

NOTE C – INVENTORIES

Inventories consist of the following:

	December 31, 2016	December 31, 2015
Raw materials	$ **349,383**	$ 334,320
Work in process	**24,214**	44,836
Finished products	**882,216**	914,486
	$**1,255,813**	$ 1,293,642

Finished product inventories at December 31, 2016 and 2015 are stated net of a reserve of $20,000 for slow moving and obsolete items.

NOTE D – INCOME TAXES

The provision for income taxes consists of the following:

	Years ended December 31, 2016	2015
Current		
Federal	$ **1,058,714**	$ 2,038,551
State	**(3,501)**	2,300
Total current provision for income taxes	**1,055,213**	2,040,851
Deferred		
Federal	**59,712**	(22,369)
State	**---**	---
Total deferred provision for income taxes	**59,712**	(22,369)
Total provision for income taxes	$ **1,114,925**	$ 2,018,482

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, 2016 ($)	2016 Tax rate	2015 ($)	2015 Tax rate
Income taxes at statutory federal income tax rate of 34%	$ **1,257,000**	**34.0** %	$ 2,253,000	34.0 %
State income taxes, net of Federal benefit	**(2,000)**	**---**	1,000	---
Domestic Production Activities tax benefit	**(104,000)**	**(2.8)**	(193,000)	(2.9)
Nondeductible expenses	**1,000**	**---**	1,000	---
R&D credits	**(30,000)**	**(0.8)**	(30,000)	(0.5)
Other, misc.	**(7,000)**	**(0.2)**	(14,000)	(0.2)
Actual income tax expense	$ 1,115,000	30.2 %	$ 2,018,000	30.4 %

During 2016 and 2015, the Company realized the tax benefits of the Domestic Production Activities deduction, which amounted to approximately 9% of net income from domestic production activities in each year.

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

	Years ended December 31, 2016	2015
Deferred tax assets		
Current		
Accounts receivable	$ **5,760**	$ 2,942
Inventories	**14,163**	14,421
Accrued expenses	**234,594**	215,942
Total deferred tax assets	**254,517**	233,305
Deferred tax liabilities		
Non-current		
Depreciation	**(161,657)**	(80,733)
Unrealized gain on marketable securities	**(90,478)**	(37,277)
Total deferred tax liabilities	**(252,135)**	(118,010)
Net deferred tax asset	$ **2,382**	$ 115,295

NOTE E - BENEFIT PLANS

Defined Contribution Plan

The Company sponsors a 401(k) defined contribution plan ("DC Plan") that provides for a dollar-for-dollar employer matching contribution of the first 4% of each employee's pay. Employees become fully vested in employer matching contributions after one year of employment. Company 401(k) matching contributions were approximately $87,000 and $102,000 for the years ended December 31, 2016 and 2015, 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. In December 2016 and 2015 the Company's Board of Directors authorized discretionary contributions in the amount of $175,000 per year, to be allocated among all eligible employees, for the 2016 and 2015 plan years. The 2016 contribution was paid in 2016, and the 2015 contribution was paid in 2015. Employees become vested in the discretionary contributions as follows: 20% after two years of employment, and 20% for each year of employment thereafter until the employee becomes fully vested after six years of employment.

NOTE F - GEOGRAPHIC and OTHER INFORMATION

The Company manufactures and markets cosmetic ingredients, personal care products, pharmaceuticals, medical lubricants, health care products, and specialty industrial products, through its Guardian Laboratories division. It also conducts research and development, primarily related to the development of new and unique cosmetic and personal care products. The Company's R&D department not only develops new products but also modifies and refines existing products, with the goal of expanding the potential markets for the Company's products. Many of the cosmetic ingredient products manufactured by Guardian, particularly its LUBRAJEL line of water-based moisturizing and lubricating gels, are currently used by many of the major multinational personal care products companies.

The Company operates in one business segment. The Company's products are separated into four distinct product categories: personal care products (including cosmetic ingredients), pharmaceuticals, medical products, and industrial products. Each product category is marketed differently. The cosmetic ingredient/personal care products are marketed through a global network of marketing partners and distributors. These marketing partners purchase product outright from the Company and market and re-sell those products to the end users. 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. These products are drug products that required the Company to obtain regulatory approval before marketing.

The medical products are not pharmaceutical products. They consist primarily of medical lubricants, which are marketed by the Company directly to manufacturers that incorporate them into urologic catheters and other medical devices and products that they sell. These products are distinguished from the pharmaceutical products in that, unlike the pharmaceutical products, the Company is not required to obtain regulatory approval prior to marketing these products. Approvals are the responsibility of the company that markets the medical device. However, the Company is responsible for manufacturing these products in accordance with current Good Manufacturing Practices for medical devices.

The industrial products are also marketed by the Company directly to manufacturers, and generally do not require that the Company obtain regulatory approval. However, the manufacturers of the finished products may have to obtain such regulatory approvals before marketing these products.

The following tables present the significant concentrations of the Company's sales. Although a significant percentage of Customer A's purchases from the Company are sold to foreign customers, in table "b" below all sales to Customer A are included in "United States" sales revenue because all shipments to Customer A are delivered to Customer A's warehouses in the U.S.

In addition, there are three customers for the Company's medical products that take delivery of their shipments in the U.S. but subsequently ship 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. Approximately 70% of the Company's domestic sales of medical products in 2016, and 71% in 2015, were delivered to U.S. locations for subsequent shipment by the customers to foreign manufacturing facilities, which then produced finished products to be marketed globally.

(a) Net Sales

	Years ended December 31,	
	2016	2015
Personal Care	**$ 4,916,630**	$ 9,922,130
Medical	**2,624,672**	2,203,890
Pharmaceutical	**3,443,215**	1,864,155
Industrial and other	**159,945**	174,361
	11,144,462	14,164,536
Less: Discounts and allowances	**(367,595)**	(158,292)
Net Sales	**$ 10,776,867**	$ 14,006,244

(b) Geographic Information (Net Sales)

	Years ended December 31, 2016	2015
United States	$ **8,313,807**	$ 11,587,247
Other countries	**2,463,060**	2,418,997
	$ **10,776,867**	$ 14,006,244

(c) Sales to Major Customers

	Years ended December 31, 2016	2015
Customer A	$ **3,457,682**	$ 8,463,691
Customer B	**1,529,970**	866,624
All other customers	**5,789,215**	4,675,929
	$ **10,776,867**	$ 14,006,244

NOTE G – COMPREHENSIVE INCOME

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

Changes in Accumulated Other Comprehensive Income	December 31, 2016	December 31, 2015
Beginning balance - net of tax	$ **72,361**	$ 259,869
Unrealized gain /(loss)on marketable securities – net of tax	**104,284**	(189,903)
Realized (loss)/gain on sale of securities	**(1,011)**	2,395
Ending balance - net of tax	$ **175,634**	$ 72,361

NOTE H - ACCRUED EXPENSES

Accrued expenses at December 31, 2016 and 2015 consist of:

	2016	2015
Bonuses	**$ 200,000**	$ 250,000
Distribution fees	**225,879**	206,977
Payroll and related expenses	**151,653**	109,451
Annual report expenses	**63,447**	66,000
Audit fee	**54,868**	82,000
Sales rebates	**23,393**	---
Other	**129,088**	71,195
Total accrued expenses	**$ 848,328**	$ 785,623

NOTE I - RELATED PARTY TRANSACTIONS

During each of the years ended December 31, 2016 and 2015 the Company paid to Bonamassa, Maietta, and Cartelli, LLP, $21,500 and $13,000, respectively, for accounting and tax services. Lawrence Maietta, a partner in Bonamassa, Maietta, and Cartelli, LLP, is a director of the Company.

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

Critical Accounting Policies

The Company's financial statements have been prepared in accordance with U.S. generally accepted accounting principles. 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 on Form 10-K 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 classifies its marketable securities as available-for-sale at the time of purchase and re-evaluates such designation as of each balance sheet date. The Company's marketable securities include investments in equity and fixed income mutual funds, and government securities. The Company's marketable securities are reported at fair value with the related unrealized gains and losses included in accumulated other comprehensive income (loss), a component of stockholders' equity. Realized gains or losses on mutual funds are determined using the average cost method, while realized gains or losses on government securities and bonds are determined using the specific-identification method. Realized gains or losses on the Company's marketable securities are insignificant for the years ended December 31, 2016 and 2015. 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 2016 and 2015 the Company did not record an impairment charge regarding its investment in marketable securities because management believes, based on its evaluation of the circumstances, that the decline in fair value below the cost of certain of the Company's marketable securities is temporary.

Revenue Recognition

The Company recognizes revenue when products are shipped, title and risk of loss pass to customers, persuasive evidence of a sales arrangement exists, and collections are reasonably assured. Any allowances

for returns are taken as a reduction in sales within the same period the revenue is recognized. Such allowances are based on historical experience as well as other factors that, in the Company's judgment, could reasonably be expected to cause sales returns or doubtful accounts to differ from historical experience.

Accounts Receivable Allowance

The Company performs ongoing credit evaluations of the Company's customers and adjusts credit limits, as determined by a review of current credit information. The Company continuously monitors collection and payments from customers and maintains an allowance for doubtful accounts based upon historical experience, the Company's anticipation of uncollectible accounts receivable and any specific customer collection issues that have been identified. While the Company's credit losses have historically been low and within expectations, the Company may not continue to experience the same credit loss rates that have historically been attained. The receivables are highly concentrated in a relatively small number of customers. Therefore, a significant change in the liquidity, financial position, or willingness to pay timely, or at all, of any one of the Company's significant customers would have a significant impact on the Company's results of operations and cash flows.

Inventory Valuation Allowance

In conjunction with the Company's ongoing analysis of inventory valuation, management constantly monitors projected demand on a product-by-product basis. Based on these projections, management evaluates the levels of write-downs required for inventory on hand and inventory on order from contract manufacturers. Although the Company believes that it has been reasonably successful in identifying write-downs in a timely manner, sudden changes in buying patterns from customers, either due to a shift in product interest and/or a complete pull back from their expected order levels, may result in the recognition of larger-than-anticipated write-downs.

Results of Operations

Year ended December 31, 2016 compared with the year ended December 31, 2015:

Net Sales

Net sales decreased from $14,006,244 in 2015 to $10,776,867 in 2016, a decrease of $3,229,377 (23%). The overall decrease was due primarily to decreases in purchases of the Company's personal care products by its primary distributor, ASI (see discussion below regarding "Personal care products"). Those decreases were partially offset by increases in sales of the Company's pharmaceutical and medical (non-pharmaceutical) products (see discussions below). The net decrease was the result of the following specific changes in sales in the different product categories:

(a) **Personal care products**:

Sales of the Company's personal care products, including cosmetic ingredients, decreased from $9,922,130 in 2015 to $4,916,630 in 2016, a decrease of $5,005,500 (approximately 50%).The decrease was attributable primarily to a decrease in sales of the Company's LUBRAJEL products to ASI, the Company's largest marketing partner, for export to China, which was due to an excess inventory situation in China during the first nine months of 2016. As a result, sales to ASI in 2016 decreased by $4,917,649 (approximately 58%) from $8,375,331 in 2015 to $3,457,682 in 2016. Aggregate sales to the Company's marketing partners in the UK and France increased by $153,831

(approximately 22%) from $694,409 in 2015 to $848,240 in 2016, while aggregate sales to the Company's distributors in Italy and Switzerland decreased by $24,968 (approximately 18%) from $135,741 in 2015 to $110,773 in 2016. Sales to the Company's distributor in Korea decreased by $199,447 (approximately 30%) from $663,327 in 2015 to $463,880 in 2016.
Although a significant percentage of ASI's purchases from the Company are sold to foreign customers, all sales to ASI are considered U.S. sales for financial reporting purposes, since all shipments to ASI are shipped to ASI's warehouses in the U.S. A certain percentage of those products are subsequently shipped by ASI to its foreign customers. Based on sales information provided to the Company by ASI, in 2016 approximately 70% of ASI's sales were to customers in foreign countries, compared with 80% in 2015. ASI's largest foreign market in both 2016 and 2015 was China, which accounted for approximately 53% of ASI's sales in 2016 and 63% in 2015.

The decrease in sales to ASI for export to China during the first nine months of 2016 was the result of (a) a regulatory issue in China that was unrelated to LUBRAJEL OIL but which required the reformulation of some of the products that contained LUBRAJEL OIL; (b) ASI continuing to purchase LUBRAJEL OIL at normalized levels despite the negative impact of that regulatory issue on product demand, thereby resulting in a short term overstocking of LUBRAJEL OIL in China, which was made worse by ASI not realizing the extent of the overstocking situation until later than it should have. As a result, there were no significant sales to ASI of product intended for China from the fourth quarter of 2015 until September 2016 while ASI worked off the excess inventory. Based on information provided to the Company by ASI, ASI's sales of the Company's products in China from ASI's inventory continued through 2016 at a reduced level, which gradually lowered ASI's excess inventory levels. With the regulatory issue having been addressed, and with products that had been affected by the regulatory issue coming back on the market during 2016, the overstock situation in China was gradually corrected, and in September 2016 ASI resumed its purchases of products intended for sale in China. However, ASI has indicated that its purchases are expected to be at lower, more normalized volumes than they had been in the first three quarters of 2015.

Sales of the Company's products in Europe increased slightly. However, the continuing sluggishness of many economies in Europe, as well as the strong U.S. dollar relative to the Euro, continued to negatively impact the Company's sales in Europe, since the strong U.S. dollar continues to make the Company's products less competitive in Europe. There has also been more competition in the European marketplace than there had been in previous years due to Asian competitors selling imitations of the Company's product at much lower prices. This has resulted in a loss of some sales to these competitive products.

From time to time the Company offers discounts to maintain and increase sales and bring in new customers. The additional competition coming from products manufactured in China has resulted in the Company offering deeper discounts than it has in the past, and it is likely that the Company's margins on some of its products will be lower in the future due to this increased competition.

In 2015 the Company had offered a discounted price to a significant customer of ASI in Canada for one of its LUBRAJEL products, in exchange for a commitment to purchase a specific amount of product during the year. Since that customer did not attain the level of purchases on which that rebate was conditioned, ASI was obligated to refund to the Company the amount of the discount that had been given to it predicated on it reaching that higher level of sales to that customer. The refund, in the amount of $88,360, was repaid to the Company in full in January 2016.

(b) **Pharmaceuticals**:

Sales of the Company's two pharmaceutical products, RENACIDIN and CLORPACTIN, together increased by $1,581,913 (approximately 85%), increasing from $1,862,935 in 2015 to $3,444,848 in 2016, with RENACIDIN accounting for most of the increase. Sales of RENACIDIN increased by $1,552,585 (approximately 115%) from $1,347,545 in 2015 to $2,900,130 in 2016, and accounted for approximately 27% of the Company's sales in 2016, as compared with 10% in 2015. The increase was due to the introduction of the Company's new 30mL single-dose form of the product, which was approved for marketing by the FDA in December 2015. The new single-dose unit was engineered to dispense the product directly into an indwelling catheter, eliminating the need to use a separate syringe to extract a small amount of product from the Company's previous 500mL glass bottle. Sales of the new sterile single-dose product began in April 2016. The Company is optimistic that this new, more user-friendly package will enable it to continue to increase its sales of RENACIDIN.

The increase in sales of the Company's pharmaceutical products was partially offset by an increase of $209,303 in allowances for distribution fees, product returns, chargebacks paid to the U.S. Department of Veterans Affairs, and rebates paid for Medicaid- and Medicare-related sales. This increase was primarily due to the increase in sales of RENACIDIN.

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

Sales of the Company's medical products increased by $420,781 (approximately 19%) from $2,203,890 in 2015 to $2,624,671 in 2016. The increase is believed to be due primarily to the timing of orders from certain customers.

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

Sales of the Company's industrial products, as well as other miscellaneous products, decreased by $14,416 (approximately 8%) from $174,361 in 2015 to $159,945 in 2016 due to normal fluctuations in customer ordering patterns.

Gross Profit

Gross profit decreased to approximately 55% in 2016 from 63% in 2015. The decrease was the result of (a) a decrease in sales of the Company's products in 2016 compared to 2015, which resulted in lower production efficiency due to the decreased production volume, and (b) an increase in the sales of some of the Company's lower-margin products, primarily RENACIDIN.

Operating Expenses

Operating expenses decreased by $9,457 in 2016 compared with the prior year, decreasing from $1,862,290 in 2015 to $1,852,833 in 2016. The decrease was mainly attributed to decreases in insurance, payroll, and payroll-related expenses.

Research and Development Expenses

Research and development expenses amounted to $651,828 and $648,211 for 2016 and 2015 respectively. The increase of $3,617 was primarily related to an increase in outside laboratory expenses.

Other Income (Expense)

Other income (net) decreased by $25,321 (approximately 8%) from $331,826 in 2015 to $306,505 in 2016. The decrease was mainly due to a decrease in investment income from both stock and bond mutual funds, as well as realized losses from the sales of some of the Company's mutual funds.

Provision for Income Taxes

The provision for income taxes decreased by $903,557 (approximately 45%) from $2,018,482 in 2016 to $1,114,925 in 2015. This decrease was mainly due to a decrease in income from operations. The Company's effective income tax rate was approximately 30% in both 2016 and 2015, and is lower than the federal statutory rate of 34% primarily due to the additional tax deduction for domestic production activities as well as the utilization of research and development tax credits.

Liquidity and Capital Resources

Working capital decreased from $13,529,593 at December 31, 2015 to $12,922,738 at December 31, 2016, a decrease of $606,855 (approximately 5%). The current ratio decreased from 14.7 to 1 at December 31, 2015 to 13.4 to 1 at December 31, 2016. The decreases in working capital and the current ratio were mainly due to a decrease in marketable securities and an increase in accrued expenses.

Accounts receivable (net of allowance for doubtful accounts) as of December 31,2016 increased by $663,243 (approximately 71%) from $934,754 in 2015 to $1,597,997 in 2016. The receivables turnover, or Days Sales Outstanding (DSO), for 2016 was 42 days, compared with 33 days in 2015. The increase was mainly the result of higher accounts receivables in the latter part of 2016 due to an increase in sales in the third and fourth quarter of 2016. The Company has bad debt reserves of $16,943 and $8,654 for 2016 and 2015, respectively, and believes that the net balance of its accounts receivable is fully collectable as of December 31, 2016.

The Company generated cash from operations of $2,290,444 in 2016 compared with $5,199,972 in 2015. The decrease in 2016 was primarily due to a decrease in net income and an increase in accounts receivable.

Net cash provided by investing activities was $490,235 for the year ended December 31, 2016 compared with cash used in investing activities of $1,674,250 for the year ended December 31, 2015. This increase in net cash provided was mainly due to a decrease in purchases of marketable securities in 2016 compared with 2015.

Cash used in financing activities was $3,436,867 and $4,468,616 during the years ended December 31, 2016 and 2015, respectively. The decrease was mainly due to the payment of lower dividends in 2016 compared with 2015.

The Company believes that its working capital is sufficient to support its operating requirements for the next fiscal year. The Company's long-term liquidity position will be dependent upon its ability to generate sufficient cash flow from profitable operations. The Company has no material commitments for future capital expenditures.

Off Balance-Sheet Arrangements

The Company has no off balance-sheet transactions that have, or are reasonably likely to have, a current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Contractual Obligations and Commitments

The information to be reported under this item is not required of smaller reporting companies.

New Accounting Pronouncements

See Note "A" to the financial statements regarding new accounting pronouncements.

Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

Market Information

The Common Stock of the Company has traded on the NASDAQ Global Market since March 16, 2009, under the symbol "UG". From December 1, 2008 through March 13, 2009, following the merger of the American Stock Exchange with the New York Stock Exchange, the Company's Common Stock was traded on the NYSE Amex Stock Exchange under the same symbol. Prior to December 1, 2008 its stock traded on the American Stock Exchange under the same symbol.

The following table sets forth the high and low closing sale prices of the shares of Common Stock, as reported by NASDAQ, for the period January 1, 2015 to December 31, 2016. The quotations represent prices between dealers and do not include retail markup, markdown or commission:

Quarters		**Year Ended December 31, 2016**		Year Ended December 31, 2015	
		High	**Low**	High	Low
First	(1/1 - 3/31)	$ **22.78**	$ **18.71**	$ 22.13	$ 18.20
Second	(4/1 - 6/30)	**20.64**	**16.07**	22.81	18.08
Third	(7/1 - 9/30)	**16.50**	**13.66**	20.00	18.00
Fourth	(10/1 - 12/31)	**16.90**	**14.36**	20.89	18.01

Holders of Record

As of March 1, 2017, there were 734 holders of record of Common Stock.

Cash Dividends

On May 18, 2016, the Company's Board of Directors declared a semi-annual cash dividend of $0.35 per share, which was paid on June 15, 2016 to all stockholders of record as of June 1, 2016. On November 30, 2016, the Company's Board of Directors declared a semi-annual cash dividend of $0.40 per share, which was paid on December 19, 2016 to all stockholders of record as of December 12, 2016.

On May 13, 2015, the Company's Board of Directors declared a semi-annual cash dividend of $0.50 per share, which was paid on June 15, 2015 to all stockholders of record as of June 1, 2015. On November 18, 2015, the Company's Board of Directors declared a semi-annual cash dividend of $0.50 per share, which was paid on December 15, 2015 to all stockholders of record as of December 1, 2015.

UNITED-GUARDIAN, INC.

Reports of Independent Registered Public Accounting Firms

To the Board of Directors and Stockholders
United-Guardian, Inc.
Hauppauge, New York

We have audited the balance sheet of United-Guardian, Inc. as of December 31, 2016, and the related statements of income, comprehensive income, stockholders' equity, and cash flows for the year then ended. United-Guardian, Inc.'s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of United-Guardian, Inc. as of December 31, 2015, were audited by other auditors whose report dated March 23, 2016, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2016 financial statements referred to above present fairly, in all material respects, the financial position of United-Guardian, Inc. as of December 31, 2016, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ RAICH ENDE MALTER & CO. LLP
Melville, New York
March 22, 2017

Board of Directors and Stockholders
United-Guardian, Inc.
Hauppauge, New York

We have audited the accompanying balance sheet of United-Guardian, Inc. (the "Company") as of December 31, 2015, and the related statements of income, comprehensive income, stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of its internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of United-Guardian, Inc. as of December 31, 2015, and the results of its operations and its cash flows for the year then ended in conformity with United States generally accepted accounting principles.

/s/ Baker Tilly Virchow Krause, LLP
Melville, New York
March 23, 2016

Registrar and Transfer Agent
Continental Stock Transfer & Trust Company
1 State Street Plaza ● New York, NY 10004

Auditors
Raich Ende Malter & Co. LLP
Melville, NY

Legal Counsel
Jay Weil, Esq.
Wayne, NJ

Main Office and Plant
230 Marcus Blvd. ● Hauppauge, NY 11788

Mailing Address
P.O. Box 18050 ● Hauppauge, NY 11788

Tel: (631) 273-0900 ● (800) 645-5566 ● Fax: (631) 273-0858 ● Web site: www.u-g.com

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

UNITED-GUARDIAN, INC.

EXCELLENCE THROUGH INNOVATION®

230 Marcus Boulevard
P.O. Box 18050
Hauppauge, New York 11788
Telephone (631) 273-0900
Fax (631) 273-0858

www.u-g.com