UNITED-GUARDIAN, INC.

EXCELLENCE THROUGH INNOVATION®

2013 Annual Report

Cosmetic Ingredients

Personal & Health Products

Pharmaceuticals

Specialty Industrial Products

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.
Little Falls, NJ (business consulting firm)

CHRISTOPHER W. NOLAN, SR.
Director; Managing Director, Mergers &
Acquisitions of Rabobank International
New York, 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, industrial, and pharmaceutical 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, and there are currently additional patent applications pending. 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.

2013 ANNUAL REPORT

to the stockholders of

UNITED-GUARDIAN, INC.

April 14, 2014

Dear Stockholder,

Our fiscal year that ended December 31, 2013 was another very strong one, with sales and earnings both setting new records and significantly exceeding our projections. This was especially gratifying considering that there were no sales of our most important pharmaceutical product, Renacidin™ Irrigation, until the last two months of the year (more on this later). The increased sales and earnings in 2013 were primarily the result of increased sales of our personal care products, especially our extensive line of Lubrajel™ water-based moisturizing and lubricating gels. Sales of these products rose by 21% in 2013, primarily due to the marketing efforts of our largest marketing partner, Ashland Specialty Ingredients ("ASI"). In China alone ASI's sales of our cosmetic ingredients increased by over 40% in 2013 compared with 2012. Our foreign sales now make up about 70% of our sales, with our products being distributed globally by our six marketing partners.

As a result of the increase in sales of our personal care products, our net sales increased from $13,825,764 in 2012 to $15,416,893 in 2013, an increase of 11.5%. Our net income for the year increased from $4,830,780 ($1.05 per share) to $5,903,309 ($1.28 per share), a year-to-year increase of 22%. Because of our strong sales and earnings we were able to increase our year-end semi-annual dividend to $0.50 per share from the $0.44 per share we paid in 2012. When added to the $0.47 per share dividend we paid in the first half of 2013, we distributed a total of $0.97 per share in dividends to our stockholders in 2013, compared with $0.86 per share in 2012 (for the two regular semi-annual dividends; we also paid a special dividend of $0.50 per share in 2012 in anticipation of potentially adverse tax changes that were expected to (and did) take effect in 2013 for certain taxpayers). This is now the 18th consecutive year that we have paid a cash dividend, and that dividend has steadily increased over those years.

The significant earnings increase in 2013 positively impacted our financial strength, which has continued to improve each year. Working capital rose from $11.8 million to $13.1 million in 2013, and stockholders' equity increased from $12.8 million to $14.2 million. Our current ratio remains very strong at 11.5 to 1.

As many of you probably know, since 2010 we have had supply problems with Renacidin, our urological drug product that is used primarily to keep indwelling catheters free flowing and for bladder irrigation. Production at our supplier's manufacturing facility was suspended twice, and from August 2012 until October 2013 we had no inventory of this product to sell. As a result of the initial production curtailment in 2010, we entered into a settlement agreement with the supplier that reimbursed us for our lost profits, and we did the same for the second curtailment. This compensation was paid to us for each month that we did not have product to sell. We believe that these payments reimbursed us for most of the profit we lost. The payments also continued (albeit at a lower rate) for the first three months after we resumed sales. Although our current monthly sales are still a long way from our historic monthly average, we are hopeful that over time, as we continue our efforts to get the word out that Renacidin is back on the market, we will be able to restore our sales to their previous levels. Although the contract with our Renacidin supplier was due to terminate in January, we recently signed an extension agreement with them that will enable us to continue to obtain product from them for the rest of this year, and possibly even into 2015.

In the meantime, we are working with a new company to produce Renacidin in a single-dose plastic bottle. This bottle will hold 30mL of product versus the 500mL that our current glass bottle holds. This new dosage form will be much more convenient to use, especially for the many patients who typically only need to use 30mL at a time. The lighter bottles are also expected to reduce our shipping costs and damage claims. We are optimistic that we can significantly increase our sales of Renacidin with this new, more convenient dosage form. In February we completed our first three pilot runs using the new proprietary mold that was made specifically for us to make the new bottles. We are in the process of conducting stability testing on those bottles, and we hope to submit an application to the FDA in the second quarter of this year to market the new single-dose bottles. Our goal is to obtain FDA approval by the end of the year, and to begin selling the new product in the first quarter of 2015. We expect to have adequate supplies of the current bottle to last until we can start producing the new bottle.

In regard to our personal care products line, sales of those products continue to increase, especially the various formulations in our extensive Lubrajel product line. We believe that the variety of products in this line has enabled us to continue to increase our sales of these products. At the same time, we are continuing to develop new cosmetic ingredients to further expand our sales in this market segment. Our current product development focus is on cosmetic ingredients that use natural raw materials, which enables formulators to develop products that can be marketed as "natural". We believe that this will continue to be an area of interest and focus for many of the major cosmetic manufacturers. The first of these new products, our "Lubrajel Natural", is already being sampled to customers, and we hope to start seeing orders soon. This product has been certified as natural by Ecocert, a leading industry certification organization for natural and organic products. We are also working on two additional products for this line. One of them is a new natural Lubrajel formulation that uses marine polysaccharides, which are said to boost the body's natural immune system and promote healthier looking skin. As with the original Lubrajel Natural, this product has already been certified "natural" by Ecocert. The third product in this line is intended to be a natural version of our very successful Lubrajel Oil. The formulation for this product has not yet been finalized, but when it is we will apply for Ecocert certification for this product as well. We believe that all of the natural products have excellent market potential. We are working closely with our marketing partners to optimize the characteristics of these new products, and expect to complete the development work on all of them and begin sampling them to our customers by the end of the third quarter of this year.

While our primary development efforts over the past couple of years have been focused on the new natural products, there are a number of other personal care products that were developed during this time, or are currently under development, that make use of our extensive experience in formulating and manufacturing water-based moisturizers and lubricants. Some examples:

- **LUBRAJEL TF:** Lubrajel TF is a medical lubricant that we specifically developed for a new customer of ours in Germany. We completed work on this product in 2012, and small volumes have already been shipped. Since the customer has not yet completed all of its development work, to date this product has not been a significant contributor to revenue. But we are optimistic that we will see increased demand in 2014.

- **CONDOM LUBRICANT**: At the end of February we signed a product development agreement with an Australian company interested in having us develop a new water-based condom lubricant into which they could incorporate their patented anti-viral agent. They will be paying us to develop the new product for them and, if successful, we hope to be their supplier of the new lubricant. Work on this project began in March.

- **PERSONAL LUBRICANT**: We have also had discussions with a major condom manufacturer interested in expanding its line of condoms with a new personal lubricant. So far these discussions have been very preliminary, but further discussions are expected to take place later this year.

- **LUBRAJEL BA**: This oral care product was developed in 2012 specifically for ASI, and is being marketed exclusively by its oral care products division. In March we received our first small order. We are hopeful that this will be the first of many, and that ASI will be successful in developing a market for this product.

Since some of the products and projects mentioned above are in early stages of development, it is certainly too soon to know whether we will be successful in all of these development efforts, or whether any of these products can be successfully marketed even if the development work is successful. But we believe that they all have market potential, and we are optimistic that at least some of these development efforts will succeed. We will continue to work closely with our marketing partners to get their input on these ongoing projects, to ensure that we are making the best use of our R&D resources.

We are very pleased with the year we had in 2013, especially considering the revenue we lost by not having Renacidin to sell. The increase in sales of our cosmetic ingredients more than made up for that lost revenue, and the additional compensation payments we received as part of the Renacidin settlement agreement helped to boost our earnings despite the fact that the Renacidin sales were lost. We are excited about our ongoing development projects, which we think will generate additional revenue for us in future years. We are optimistic that the new sales that should result from that work, along with the continuing efforts of our marketing partners to expand the marketing of our products into new geographic markets, will enable us to continue to increase both sales and earnings in 2014.

Sincerely,

UNITED-GUARDIAN, INC.

Ken Globus
President

UNITED-GUARDIAN, INC.

STATEMENTS OF INCOME

	Years ended December 31, 2013	2012
Net sales	**$ 15,416,893**	$ 13,825,764
Costs and expenses:		
Cost of sales	**5,610,813**	5,218,959
Operating expenses	**2,504,526**	2,508,334
Total costs and expenses	**8,115,339**	7,727,293
Income from operations	**7,301,554**	6,098,471
Other income (expense):		
Investment income	**259,747**	325,017
(Loss) on sale of assets	**---**	(14,861)
Income from damage settlement	**1,070,561**	518,050
Total other income, net	**1,330,308**	828,206
Income from operations before income taxes	**8,631,862**	6,926,677
Provision for income taxes	**2,728,553**	2,095,897
Net income	**$ 5,903,309**	$ 4,830,780
Earnings per common share (basic and diluted)	**$ 1.28**	$ 1.05
Weighted average shares (basic and diluted)	**4,596,439**	4,596,439

STATEMENTS OF COMPREHENSIVE INCOME

	Years ended December 31, 2013	2012
Net income	$ **5,903,309**	$ 4,830,780
Other comprehensive (loss) income:		
Unrealized (loss) gain on marketable securities	**(71,711)**	220,946
Income tax benefit (expense)	**24,855**	(76,579)
Other comprehensive (loss) income, net of tax	**(46,856)**	144,367
Comprehensive income	$ **5,856,453**	$ 4,975,147

See Notes to Financial Statements

UNITED-GUARDIAN, INC.

BALANCE SHEETS

ASSETS

	December 31, 2013	December 31, 2012
Current assets:		
Cash and cash equivalents	**$ 1,634,262**	$ 1,748,382
Marketable securities	**8,863,205**	7,743,946
Accounts receivable, net of allowance for doubtful accounts of $18,000 in 2013 and $29,000 in 2012	**1,790,747**	1,017,627
Receivable in connection with damage settlement	**48,805**	518,050
Inventories (net)	**1,610,747**	1,242,750
Prepaid expenses and other current assets	**130,001**	132,458
Prepaid income taxes	**---**	3,602
Deferred income taxes	**229,451**	216,588
Total current assets	**14,307,218**	12,623,403
Property, plant, and equipment:		
Land	**69,000**	69,000
Factory equipment and fixtures	**4,090,968**	3,842,927
Building and improvements	**2,766,319**	2,725,993
Waste disposal plant	**133,532**	133,532
Total property, plant and equipment	**7,059,819**	6,771,452
Less accumulated depreciation	**5,725,318**	5,535,589
Net property, plant, and equipment	**1,334,501**	1,235,863
Other asset:	**9,147**	---
Total assets	**$ 15,650,866**	$ 13,859,266

See Notes to Financial Statements

UNITED-GUARDIAN, INC.

BALANCE SHEETS
(continued)

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31,	
	2013	2012
Current liabilities:		
Accounts payable	**$ 385,699**	$ 151,385
Accrued expenses	**728,015**	676,123
Income taxes payable	**131,638**	---
Total current liabilities	**1,245,352**	827,508
Deferred income taxes	**169,587**	193,740
Stockholders' equity:		
Common stock, $.10 par value; 10,000,000 shares authorized; 4,596,439 shares issued and outstanding at December 31, 2013 and 2012, respectively	**459,644**	459,644
Accumulated other comprehensive income	**132,123**	178,979
Retained earnings	**13,644,160**	12,199,395
Total stockholders' equity	**14,235,927**	12,838,018
Total liabilities and stockholders' equity	**$ 15,650,866**	$ 13,859,266

See Notes to Financial Statements

UNITED-GUARDIAN, INC.

STATEMENT OF STOCKHOLDERS' EQUITY

Years ended December 31, 2013 and 2012

	Common stock Shares	Common stock Amount	Accumulated other comprehensive income	Retained earnings	Total
Balance, January 1, 2012	4,596,439	$ 459,644	$ 34,612	$ 13,619,773	$ 14,114,029
Change in unrealized gains on marketable securities, net of deferred income tax expense of $76,579			144,367		144,367
Net income				4,830,780	4,830,780
Dividends declared				(6,251,158)	(6,251,158)
Balance, December 31, 2012	4,596,439	459,644	178,979	12,199,395	12,838,018
Change in unrealized gains on marketable securities, net of deferred income tax benefit of $24,855			(46,856)		(46,856)
Net income				5,903,309	5,903,309
Dividends declared				(4,458,544)	(4,458,544)
Balance, December 31, 2013	4,596,439	$ 459,644	$ 132,123	$ 13,644,160	$ 14,235,927

See Notes to Financial Statements

UNITED-GUARDIAN, INC.

STATEMENTS OF CASH FLOWS

	Years ended December 31,	
	2013	2012
Cash flows from operating activities:		
Net income	**$ 5,903,309**	$ 4,830,780
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**189,729**	254,441
Net loss on sale of assets	**---**	14,861
Realized (gain) loss on sales of marketable securities	**(18,675)**	22,931
(Decrease) increase in allowance for bad debts	**(11,089)**	11,054
Deferred income taxes	**(12,161)**	59,541
(Decrease) increase in cash resulting from changes in operating assets and liabilities:		
Accounts receivable	**(762,031)**	624,758
Receivable from damage settlement	**469,245**	(518,050)
Inventories	**(367,997)**	224,684
Prepaid expenses and other current and non-current assets	**(6,690)**	30,576
Prepaid income taxes	**3,602**	75,011
Accounts payable	**234,314**	(249,004)
Accrued expenses and taxes payable	**183,530**	(836)
Net cash provided by operating activities	**5,805,086**	5,380,747
Cash flows from investing activities:		
Acquisitions of plant and equipment	**(288,367)**	(252,356)
Proceeds from the sale of assets	**---**	30,350
Purchases of marketable securities	**(5,311,313)**	(4,266,419)
Proceeds from sales of marketable securities	**4,139,018**	6,016,244
Net cash (used in) provided by investing activities	**(1,460,662)**	1,527,819
Cash flows from financing activities:		
Dividends paid	**(4,458,544)**	(6,251,158)
Net cash used in financing activities	**(4,458,544)**	(6,251,158)
Net (decrease) increase in cash and cash equivalents	**(114,120)**	657,408
Cash and cash equivalents, beginning of year	**1,748,382**	1,090,974
Cash and cash equivalents, end of year	**$ 1,634,262**	$ 1,748,382

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, conducts research, product development, manufacturing and marketing of cosmetic ingredients and other personal care products, pharmaceuticals, medical and health care products, and proprietary specialty industrial products. Two major product lines, LUBRAJEL™ and RENACIDIN™ IRRIGATION ("RENACIDIN") together accounted for 94.4% and 94.1% of revenue for the years ended December 31, 2013 and December 31, 2012, respectively. LUBRAJEL accounted for 91.4% and 86.5% of revenue for the years ended December 31, 2013 and December 31, 2012, respectively, and RENACIDIN accounted for 2.9% and 7.6% of revenue for the years ended December 31, 2013 and December 31, 2012, 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 Free On Board ("FOB") Hauppauge, New York, the location of the Company's plant. Both title and risk of loss are deemed by both the Company and its customers to have passed to the customers at the time the goods leave the Company's plant. 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.

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 up to a maximum of $250,000.

Dividends

On May 15, 2013, the Company's Board of Directors declared a semi-annual cash dividend of $0.47 per share, which was paid on June 14, 2013 to all stockholders of record as of May 30, 2013. On November 22, 2013, the Company's Board of Directors declared a semi-annual cash dividend of $0.50 per share, which was paid on December 20, 2013 to all stockholders of record as of December 6, 2013. Total dividends declared and paid in 2013 were $4,458,544.

On May 16, 2012, the Company's Board of Directors declared a semi-annual cash dividend of $0.42 per share, which was paid on June 18, 2012 to all stockholders of record as of June 4, 2012. On December 4, 2012, the Company's Board of Directors declared a semi-annual cash dividend of $0.44 per share and a special dividend of $0.50 per share, which were paid on December 21, 2012 to all stockholders of record as of December 14, 2012. Total dividends declared and paid in 2012 were $6,251,158.

Supplemental Disclosures of Non-cash Investing and Financing Activities

Cash payments for income taxes were $2,605,474 and $2,024,245 for the years ended December 31, 2013 and 2012, respectively.

Marketable Securities

Marketable securities include investments in equity and fixed income mutual funds, government securities and corporate bonds, 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 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 to income 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
Waste disposal system	7 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, 2013 and 2012.

Other Asset

Other asset at December 31, 2013 consisted of costs incurred relating to the new production process for RENACIDIN.

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.

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, 2013, two customers, both of them distributors and marketing partners of the Company, accounted for approximately 69% of the Company's revenues during the year, and 72% of its outstanding accounts receivable at year end. For the year ended December 31, 2012, these same two customers accounted for a total of 62% of the Company's revenues during the year, and 52% of its outstanding accounts receivable at year end.

Vendor Concentration

The principal raw materials used by the Company consist of common industrial organic and inorganic chemicals. Most of these materials are available in ample supply from numerous sources. The Company has five major raw material vendors that accounted for approximately 67% and 77% of the raw material purchases by the Company in 2013 and 2012, 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, 2013 and 2012, 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, 2013 and 2012 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 for years 2010 through 2012. In March 2014 the Department of Taxation of the State of New York ("DOT") commenced an examination of the Company's income tax returns for years 2010 through 2012. The Company has already provided the DOT with some preliminary information that it requested.

Research and Development

The Company's research and development expenses, included in operating expenses, are recorded in the year incurred. Research and development expenses were approximately $717,000 and $693,000 for the years ended December 31, 2013 and 2012, respectively.

Shipping and Handling Costs

Shipping and handling costs are classified in operating expenses in the accompanying statements of income. Shipping and handling costs were approximately $45,000 and $65,000 for the years ended December 31, 2013 and 2012, respectively.

Advertising Costs

Advertising costs are expensed as incurred. During 2013 and 2012 the Company incurred $16,000 and $24,000, respectively, in advertising costs.

Stock-Based Compensation

In 2004, the Company approved a stock option plan ("2004 Stock Option Plan"). All share-based payments to employees, including grants of employee stock options, are recognized as compensation expense over the requisite service period (generally the vesting period) in the financial statements based on their fair values on grant date. For options with graded vesting, the Company fair values the stock option grants and recognizes compensation expense as if each vesting portion of the award was a separate award. The impact of forfeitures that may occur prior to vesting is also estimated and considered in the amount of expense recognized. In addition, the realization of tax benefits in excess of amounts recognized for financial reporting purposes will be recognized as a financing activity rather than as an operating activity.

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 include the dilutive effect of outstanding stock options.

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, reserve for inventory obsolescence, and the allocation of overhead.

New Accounting Standards

In February 2013, FASB issued ASU 2013-02, “Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income.” This update requires the Company to report amounts being reclassified out of accumulated other comprehensive income by component. It also requires the Company to report either on the face of the financial statements or in the notes any significant amounts reclassified out of accumulated other comprehensive income, by the respective line items of net income, but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For those amounts not required to be reclassified directly to net income in their entirety, the Company is required to cross-reference other disclosures that provide further details about the amounts. The amendments are effective for reporting periods beginning after December 15, 2012. The Company adopted this amendment effective January 1, 2013. The adoption of this amendment did not have a material impact on the Company’s results of operations.

In December of 2013, FASB issued ASU 2013-12, “Definition of a Public Business Entity.” This amendment clarifies the definition of what is a public entity as compared to a private entity to minimize the inconsistency and complexity of having multiple definitions for applying U.S. generally accepted accounting principles. It does not affect existing requirements and there is no effective date for adoption. This amendment does not affect the Company’s results of operations.

In December of 2013, FASB issued ASU 2013-11, “Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.” This amendment requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax

asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward with exceptions. This amendment only applies to entities that have an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. This update became effective for interim and annual reporting periods beginning after December 15, 2013. The update does not have a material impact on the Company's results of operation and at the present time it does not apply to the Company.

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. 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, 2013	Cost	Fair Value	Unrealized Gain/(Loss)
Available for sale:			
Corporate bonds (matures within 1 year)	**$ 203,920**	**$ 200,053**	**$ (3,867)**
Fixed income mutual funds	**7,325,930**	**7,425,687**	**99,757**
Equity and other mutual funds	**1,131,147**	**1,237,465**	**106,318**
	$ 8,660,997	**$ 8,863,205**	**$ 202,208**
December 31, 2012			
Available for sale:			
Corporate bonds (maturities of 1-5 years)	$ 203,920	$ 203,357	$ (563)
Fixed income mutual funds	6,991,181	7,242,998	251,817
Equity and other mutual funds	274,926	297,591	22,665
	$ 7,470,027	$ 7,743,946	$ 273,919

Proceeds from the sale and redemption of marketable securities amounted to $4,139,018 and $6,016,244 for the years ended December 31, 2013 and 2012, respectively. Gains of $18,675 and losses of $22,931 were realized for the years ended December 31, 2013 and 2012, respectively.

Investment income consisted principally of unrealized and realized gains and losses, interest income from bonds and money market funds, and dividend income from bond funds and mutual funds.

NOTE C – INVENTORIES

Inventories consist of the following:

	December 31,	
	2013	2012
Raw materials and work-in-process	**$ 488,757**	$ 481,544
Finished products	**1,121,990**	761,206
	$1,610,747	$ 1,242,750

Finished product inventories at December 31, 2013 and 2012 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,	
	2013	2012
Current		
Federal	**$ 2,721,068**	$ 2,015,345
State	**19,646**	21,011
	2,740,714	2,036,356
Deferred		
Federal	**(11,810)**	57,823
State	**(351)**	1,718
	(12,161)	59,541
Total provision for income taxes	**$ 2,728,553**	$ 2,095,897

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,			
	2013		2012	
	($)	**Tax rate**	($)	Tax rate
Income taxes at statutory federal income tax rate of 34%	**$ 2,935,000**	**34.0 %**	$ 2,355,000	34.0 %
State income taxes, net of Federal benefit	**13,000**	**0.2**	14,000	0.2
Domestic Production Activities tax benefit	**(180,000)**	**(2.1)**	(167,000)	(2.4)
Nondeductible expenses	**1,000**	**---**	1,000	---
Prior year over-accrual	**(19,000)**	**(0.2)**	(24,000)	(0.4)
R&D credits	**(20,000)**	**(0.2)**	(83,000)	(12.1)
Other, misc.	**(1,000)**		1,000	
Tax exempt income	**---**	**---**	(1,000)	---
Actual income tax expense	**$ 2,729,000**	**31.7 %**	$ 2,096,000	30.0 %

During 2013 and 2012, 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,	
	2013	2012
Deferred tax assets		
Current		
Accounts receivable	**$ 6,089**	$ 9,933
Inventories	**16,862**	14,348
Accrued expenses	**206,500**	192,307
	229,451	216,588
Deferred tax liabilities		
Non-current		
Depreciation	**(99,502)**	(98,800)
Unrealized gain on marketable securities	**(70,085)**	(94,940)
	(169,587)	(193,740)
Net deferred tax asset	**$ 59,864**	$ 22,848

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 $101,000 and $96,000 for each of the years ended December 31, 2013 and 2012. In 2013 and 2012 employees were able to defer up to $17,500 and $17,000, respectively (plus $5,500 for employees over the age of 50) of their yearly pay as a pre-tax investment in the 401(k)plan, in accordance with limits set by the IRS. (Those limits of $17,500 (plus an additional $5,500 for employees over the age of 50) will be the same in 2014).

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 2013 and 2012 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 2013 and 2012 plan years. The 2013 contribution was paid in 2013, and the 2012 contribution was paid in 2012. 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.

Stock Option Plans

At its meeting on March 19, 2004 the Board of Directors of the Company approved the adoption of the 2004 Stock Option Plan. The plan authorizes the granting of options for up to 500,000 shares, and covers both employees and directors. The adoption and implementation of the plan was ratified by the shareholders of the Company at the Company's annual meeting of shareholders on May 19, 2004. As of December 31, 2013 and 2012, the Company had no share-based awards outstanding and exercisable and did not grant any options for these years.

NOTE F - GEOGRAPHIC and OTHER INFORMATION

Through its Guardian Laboratories division the Company manufactures and markets cosmetic ingredients, personal care products, pharmaceuticals, medical and health care products, and specialty industrial products. 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: pharmaceuticals, personal care products (including cosmetic ingredients), 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 was 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 geographic information set forth in table "(b)" below is partially based on sales information provided to the Company by Customer A (shown in table "(c)" below), which exclusively markets the Company's cosmetic ingredients in Canada and China, and also sells some of the Company's products into France on a non-exclusive basis along with Customer B.

(a) Net Sales

	Years ended December 31,	
	2013	2012
Personal Care	**$ 11,459,482**	$ 9,438,345
Medical	**3,028,659**	2,904,327
Pharmaceutical	**916,927**	1,524,581
Industrial and other	**164,014**	153,498
	15,569,082	14,020,751
Less: Discounts and allowances	**(152,189)**	(194,987)
	$ 15,416,893	$ 13,825,764

(b) Geographic Information

	Years ended December 31,			
	2013		2012	
	Revenues	**Long-Lived Assets**	Revenues	Long-Lived Assets
United States	**$ 4,580,429**	**$ 1,334,501**	$ 4,648,472	$ 1,235,863
Canada	**3,390,619**	**---**	2,860,154	---
China	**3,519,450**	**---**	2,462,967	---
France	**856,285**	**---**	903,137	---
Other countries	**3,070,110**	**---**	2,951,034	---
	$ 15,416,893	**$ 1,334,501**	$ 13,825,764	$ 1,235,863

(c) Sales to Major Customers

	Years ended December 31,	
	2013	2012
Customer A	**$ 9,712,382**	$ 7,664,805
Customer B	**856,285**	837,220
All other customers	**4,848,226**	5,323,739
	$ 15,416,893	$ 13,825,764

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, 2013	December 31, 2012
Beginning balance - net of tax	**$ 178,979**	$ 34,612
Unrealized (loss)/gain on marketable securities before reclassifications - net of tax	**(65,531)**	167,298
Realized gain/(loss) on sale of securities reclassified from accumulated other comprehensive income	**18,675**	(22,931)
Ending balance - net of tax	**$ 132,123**	$ 178,979

NOTE H - INCOME FROM DAMAGE SETTLEMENT

On May 2012 the Company's supplier of RENACIDIN curtailed production due to manufacturing issues. As a result of that curtailment, the Company and its supplier entered into a settlement agreement whereby the supplier agreed to pay the Company $518,050 for profit the Company lost during 2012 as a result of the curtailment, and an additional $97,610 per month beginning January 1, 2013 for each month that the curtailment continued. It also agreed to pay an additional $48,805 for the first two months after shipments resumed, and another $24,402 for the third month after production resumed, as "ramp-up" payments. The payments were to continue until either the supply contract ended in January 2014 or product delivery resumed, whichever occurred first. Because deliveries resumed at the end of October of 2013, the obligation to pay $97,610 per month ceased as of that time, and the supplier's remaining obligation was to pay the ramp-up payments for the next three months thereafter. The total amount of income that the Company earned in connection with the damage settlement totaled $1,070,561 in 2013, and $518,050 in 2012. In connection with those earnings the Company was due $48,805 and $518,050 at December 31, 2013 and 2012, respectively.

NOTE I - ACCRUED EXPENSES

Accrued expenses at December 31, 2013 and 2012 consist of:

	2013	2012
Bonuses	**$ 250,000**	$ 229,000
Distribution fees	**196,558**	196,617
Payroll and related expenses	**104,394**	72,306
Annual report expenses	**66,000**	66,000
Audit fee	**73,269**	68,467
Other	**37,794**	43,733
	$ 728,015	$ 676,123

NOTE J - RELATED PARTY TRANSACTIONS

During each of the years ended December 31, 2013 and 2012 the Company paid to Bonamassa, Maietta, and Cartelli, LLP, $14,000, 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.

During the fourth quarter of 2012 the President of the Company, Kenneth H. Globus, was reimbursed $24,408 for the value of the trade-in of a personal vehicle that was used to purchase a Company vehicle. For the year ended December 31, 2013 there were no such transactions.

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, government securities, and corporate bonds. 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, 2013 and 2012. 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 2013 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, 2013 compared with the year ended December 31, 2012:

Net Sales

Net sales in 2013 increased by $1,591,129 (11.5%) compared with 2012. The net increase was the result of the following changes in sales in the different product categories:

(a) **Personal care products**:

Sales of the Company's personal care products, including cosmetic ingredients, increased by $2,021,136 (21.4%) for the year ended December 31, 2013 when compared with 2012. The increase was attributable primarily to an increase in sales to ASI, the Company's largest marketing partner. Sales to ASI in 2013 increased by $2,047,577 (26.7%) compared with 2012. Sales to three of the Company's marketing partners in Europe, as well as its marketing partner in Korea, collectively declined by $59,034 (3.4%) in 2013 compared with 2012, while sales to the Company's distributor in France increased slightly.

The Company believes that the net increase in sales of its personal care products was the result of improving economic conditions in Asia and North America, which resulted in new consumer product introductions utilizing its products. In particular, sales of the Company's products into China increased by over 40% in 2013. The overall increase in sales was almost entirely attributable to an increase in sales of the Company's extensive line of LUBRAJEL products.

The Company's increased sales to ASI are believed to be the result of both new consumer product introductions and new customers for the Company's products as well as normal fluctuations in ASI's buying patterns. The decrease in sales to most of the Company's European marketing partners is believed to be due to the continuing economic decline in the western European economies, which has resulted in a decrease in demand for personal care and cosmetic ingredients in those areas.

Total sales of all of the Company's LUBRAJEL products for both personal care and medical uses increased by $2,142,378 (17.9%) in 2013 compared with 2012. The unit volume of all LUBRAJEL products sold, both for personal care and medical uses, increased by approximately 16.5% in 2013 compared with 2012.

(b) **Pharmaceuticals**:

Sales of the Company's two pharmaceutical products, RENACIDIN and CLORPACTIN, decreased by $607,654 (39.9%) for the year ended December 31, 2013 compared with 2012, with RENACIDIN accounting for almost the entire decrease. RENACIDIN accounted for approximately 3% of the Company's sales in 2013, and 8% of sales in 2012. Historically, RENACIDIN sales have been approximately 16-20% of Company sales. The decreases in sales of RENACIDIN in both 2012 and 2013 were due to the inability of the Company to fill orders from August 1, 2012 to October 31, 2013 because it could not get product from its supplier. The product has been manufactured for the Company under a long-term contract with a major U.S. drug manufacturer that first experienced regulatory and production problems in 2010, which resulted in a curtailment of production. It then experienced a second production curtailment in May 2012, which continued until production resumed in September 2013. As a result, the Company began to allocate product to its customers beginning in May 2012, and continued to do so until its inventory was depleted on August 1, 2012. Sales could not resume until October 31, 2013, shortly after the supplier was able to resume production. As a result of the second production curtailment, the Company and its supplier entered into a settlement agreement ("Settlement Agreement"), whereby the supplier agreed to pay the Company $97,610 per month for each month that the product was not available for sale, with those payments to continue until either deliveries resumed or the contract with the supplier ended on January 20, 2014, whichever came first. It also provided for ramp-up payments of $48,805 for the first two months after the Company started receiving product, and a final payment of $24,402 for the third month after production resumed. The Company believes that these payments compensated the Company for most of the RENACIDIN gross profit the Company lost during this period. Further information on the previous production curtailment, as well as an earlier settlement agreement that was entered into in August 2011 as a result of that previous production curtailment, can be found in the Company's Annual Reports on Forms 10-K for 2012 and 2011.

The Company is currently working with a new supplier that will be producing RENACIDIN in a new single-dose unit that the Company anticipates may increase its sales of this product in future years. The Company hopes to have the new dosage form on the market in early 2015, subject to FDA approval. However, any delays in FDA approval could change that timetable. The Company is currently receiving new shipments of the current dosage form of RENACIDIN, and expects to have adequate inventory to last until the new single-dose form is approved.

(c) **Medical products**:

Sales of the Company's medical products increased $124,332 (4.3%) in 2013 compared with 2012. Sales of the primary products in this category all increased, but such increases were partially offset

by lower sales of LUBRAJEL RC and LC, which decreased by 14.4% due to the ordering patterns of the customers for this product.

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

Sales of the Company's industrial products, as well as other miscellaneous products, increased by $10,517 (6.9%) in 2013 when compared with 2012.

Sales were positively impacted in 2013 by a decrease of $42,799 (21.9%) in sales discounts and allowance reserves as compared with 2012. The decrease in sales discounts and allowances was mainly due to decreases in the allowance for distribution fees, rebates, and sales discounts attributable to the lower sales of RENACIDIN in 2013 as compared with 2012.

Cost of Sales

Cost of sales as a percentage of net sales in 2013 decreased to 36.4% from 37.7% in the prior year. The decrease was primarily the result of the change in the Company's product mix as a result of the lower sales of RENACIDIN in 2013 (as discussed above), and increased sales in 2013 of the Company's higher-margin LUBRAJEL products, as well as decreases in amortization and insurance expense.

Operating Expenses

Operating expenses decreased by $3,808 (0.2%) in 2013 compared with the prior year.

Portions of the Company's operating expenses are directly attributable to the research and development that the Company performs. In 2013 and 2012, the Company incurred approximately $717,000 and $693,000, respectively, in research and development expenses, which are included in operating expenses. The increase in R&D costs incurred in 2013 was primarily attributable to increases in payroll costs. No portion of the research and development expenses was directly paid by the Company's customers.

Other Income (Expense)

Other income (net) increased $502,102 (60.6%) for the year ended December 31, 2013 when compared with 2012. The increase was mainly attributable to the $1,070,561 received from the Company's RENACIDIN supplier pursuant to the aforementioned Settlement Agreement. This compares with $518,050 that the Company had accrued in 2012 pursuant to that same Settlement Agreement.

The Company earns interest income from money market funds and bonds, and dividend income from both stock and bond mutual funds. Other income was reduced in 2013 by a decrease in investment income of $65,270 (20.1%), which primarily resulted from lower interest rates and dividend returns compared with 2012.

The Company also had a net loss on the sale of assets of $14,861 in 2012, which did not recur in 2013.

Provision for Income Taxes

The provision for income taxes increased by $632,656 (30.2%) in 2013 compared with 2012. This increase was mainly due to an increase in income from operations and from the RENACIDIN damage

settlement. The Company's effective income tax rate was approximately 32% in 2013 and 30% in 2012, 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 increased from $11,795,895 at December 31, 2012 to $13,061,866 at December 31, 2013, an increase of $1,265,971 (10.7%). The current ratio decreased from 15.3 to 1 at December 31, 2012 to 11.5 to 1 at December 31, 2013. The increase in working capital was mainly due to increases in marketable securities, accounts receivable, and inventory. The decrease in the current ratio was primarily the result of increases in accounts payable and income taxes payable.

Accounts receivable (net of allowance for doubtful accounts) as of December 31, 2013 increased by $773,120 as compared with 2012. The average period of time that an account receivable was outstanding was approximately 33 and 35 days in 2013 and in 2012, respectively. The Company has a bad debt reserve of $18,000 and $29,000 for 2013 and 2012, respectively, and believes that the net balance of its accounts receivable is fully collectable as of December 31, 2013.

The Company does not maintain a line of credit with a financial institution because the Company has no foreseeable need for a line of credit, and therefore management believes that the cost of maintaining a line of credit is not justified, especially considering the strong financial condition of the Company.

The Company generated cash from operations of $5,805,086 in 2013 compared with $5,380,747 in 2012. The increase in 2013 was primarily due to increases in net income, accounts payable, accrued expenses, and taxes payable.

Net cash used in investing activities was $1,460,662 for the year ended December 31, 2013, compared with net cash provided by investing activities of $1,527,819 for the year ended December 31, 2012. This decrease was mainly due to purchases of marketable securities in 2013.

Cash used in financing activities was $4,458,544 and $6,251,158 during the years ended December 31, 2013 and 2012, respectively. The decrease was mainly due to a special dividend of $0.50 per share the Company paid in December 2012 due to uncertainty regarding the tax treatment of qualified dividends after December 31, 2012. For the year ended December 31, 2013 the Company did not declare any special dividends.

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 for the periods indicated the high and low closing sale prices of the shares of Common Stock, as reported by NASDAQ, for the period January 1, 2012 to December 31, 2013. The quotations represent prices between dealers and do not include retail markup, markdown or commission:

Quarters		**Year Ended December 31, 2013**		Year Ended December 31, 2012	
		High	**Low**	High	Low
First	(1/1 - 3/31)	**$ 22.69**	**$ 18.84**	$ 18.35	$ 14.91
Second	(4/1 - 6/30)	**26.55**	**19.95**	23.63	18.00
Third	(7/1 - 9/30)	**28.33**	**23.80**	20.00	16.78
Fourth	(10/1 - 12/31)	**28.80**	**24.28**	19.78	17.10

Holders of Record

As of March 3, 2014, there were 856 holders of record of Common Stock.

Cash Dividends

On May 15, 2013, the Company's Board of Directors declared a semi-annual cash dividend of $0.47 per share, which was paid on June 14, 2013 to all stockholders of record as of May 30, 2013. On November 22, 2013, the Company's Board of Directors declared a semi-annual cash dividend of $0.50 per share, which was paid on December 20, 2013 to all stockholders of record as of December 6, 2013.

On May 16, 2012, the Company's Board of Directors declared a semi-annual cash dividend of $0.42 per share, which was paid on June 18, 2012 to all stockholders of record as of June 4, 2012. On December 4, 2012, the Company's Board of Directors declared a semi-annual cash dividend of $0.44 per share and a special dividend of $0.50 per share, which were paid on December 21, 2012 to all stockholders of record as of December 14, 2012.

UNITED-GUARDIAN, INC.

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying balance sheets of United-Guardian, Inc. (the "Company") as of December 31, 2013 and 2012, and the related statements of income, comprehensive income, stockholders' equity, and cash flows for the years 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 audits.

We conducted our audits 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 audits 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 also 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 audits provide 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, 2013 and 2012, 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.

/s/ Baker Tilly Virchow Krause, LLP
Melville, New York
March 21, 2014

Registrar and Transfer Agent
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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.

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.

UNITED-GUARDIAN, INC.

EXCELLENCE THROUGH INNOVATION®

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