UNITED-GUARDIAN, INC.

Excellence Through Innovation®

2014 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.
(business consulting firm), Little Falls, NJ

CHRISTOPHER W. NOLAN, SR.
Managing Principal of Cappawhite Advisors LLC,
a financial advisory firm for mergers & acquisitions
Wayne, NJ

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.

2014 ANNUAL REPORT

to the stockholders of

UNITED-GUARDIAN, INC.

April 14, 2015

Dear Stockholder,

This past year was an unusual one for us, starting off and finishing very strong, but with some disappointing results in between. There were a number of reasons for this, some of which may or may not factor into our revenue in 2015, and I will explain all of these in detail.

As I pointed out in my last stockholder letter, our third quarter was not a strong one, and we knew that it would significantly impact our sales and earnings for the entire year. We did, however, have a very strong fourth quarter, which made up for some of the third quarter weakness. It would have been very difficult, if not impossible, for us to make up for all of the deficiency we experienced in the third quarter. As a result, sales for the year were down by just under 13%, from $15,416,893 in 2013 to $13,449,679 in 2014. Net income for the year was down from $5,903,309 ($1.28 per share) in 2013 to $4,050,416 ($0.88 per share) in 2014.

The decline in sales and earnings was primarily attributable to reduced sales of our personal care products, which decreased by almost 18% in 2014. Sales of our medical products also were down (by approximately 18%) due to the loss of a customer for one of our medical products. Partially offsetting those declines was an increase of $731,000 in sales of Renacidin® Irrigation, our most important pharmaceutical product. Despite the revenue decrease in 2014 we continued to be very profitable, with net income for the year of $4,050,416, or $0.88 per share. As a result, our financial strength continued to grow, with stockholders' equity increasing from $14,235,927 to $14,736,938, retained earnings increasing from $13,644,160 to $14,017,425, and working capital increasing from $13.1 million as of December 31, 2013 to $13.7 million at December 31, 2014. During that period our current ratio increased from 11.5 to 1 to 15.0 to 1.

The main reason for the decrease in sales of our personal care products was the loss of some of the business we had with a significant customer for one of our Lubrajel™ products. The Lubrajel product line is a varied line of water-based moisturizers and lubricants, and is our largest revenue generator. During 2014 this customer had a change in management, which resulted in a decision to have two sources for the product that they had been buying exclusively from us. We did not become aware of this until the third quarter of 2014, when our largest marketing partner, Ashland Specialty Ingredients ("ASI"), notified us that this customer had purchased significantly less product year-to-date than it had in the previous year. Once we became aware of this we worked with ASI to offer incentives to this customer to increase its purchases from us. As a result, sales to this customer did increase at the end of 2014. But it is too early to determine what their level of purchases will be in 2015. While we are hopeful that the price incentives we offered them will be sufficient motivation for them to resume larger purchases from us, we probably won't know the results of these efforts until later in the second quarter.

In addition to the decreased sales to that one customer, the timing of orders also negatively affected our 2014 sales. Over the past few years our sales into China through ASI have steadily increased. In 2014 approximately one-third of ASI's purchases from us were intended for shipment to China. Based on projections from some of ASI's larger-volume Chinese customers at the end of 2013, ASI placed substantial orders for Lubrajel products, much of which was shipped at the end of 2013. As 2014 progressed it became apparent that ASI had purchased significant volumes of product much sooner than it really needed to, based on the inaccurate projections it had received from some of its customers in China. This resulted in a lag in sales in 2014 until ASI's inventory of those products was depleted. Sales finally resumed in the fourth quarter of 2014, and we now expect that ASI's purchases of product intended for shipment to China will be more evenly spread out in 2015. As a result of that large intake of inventory in late 2013 and early 2014, sales in 2014 were lower than they would have been had those orders been placed more evenly throughout 2014. Since the beginning of 2015 we have been receiving steady orders from ASI for product intended for China, and expect sales this year to be more representative of the increase in business that we have experienced in China. ASI did report to us last year that sales to its Chinese customers in the first nine months of 2014 increased 20% over the same period in 2013, and they have indicated that they expect sales into China to remain strong in 2015.

The other significant factor in the decrease in net income in 2014 related to our resumption of Renacidin sales. As many of you already know, production of Renacidin had been suspended twice over the past few years due to regulatory and production problems experienced by the company that manufactures Renacidin for us. The last production curtailment ended in October 2013. As a result, in 2013 there were only two months of sales, compared with a full year in 2014. That was the reason sales of Renacidin increased by so much in 2014. However, we had been receiving monthly payments from our supplier to compensate us for the sales we lost as a result of the production curtailment, and those payments ceased at the beginning of 2014. Since Renacidin sales are still lower than they had been before the production curtailments, the income generated from Renacidin in 2014 did not make up for the discontinuation of the compensation payments we had been receiving. That also contributed to lower net income in 2014.

These two factors, along with the loss of the medical product customer at the end of 2013, were the main contributors to the drop in sales that we experienced in the first nine months of 2014.

In regard to Renacidin, in August 2014 we submitted an application to the FDA to market a new 30mL single-dose form of Renacidin, which is currently sold only in a 500mL glass bottle. Over the years we have had many requests to produce a smaller, single-dose unit. The new 30mL plastic bottle will be much more convenient for many patients to use, and will, we hope, increase our Renacidin sales, while at the same time reducing shipping costs and breakage. The review of our submission by the FDA has been partially completed, and the new facility in Illinois that will be manufacturing the product for us has already been inspected by the FDA. As far as we know, the only remaining item is their review of our proposed labeling. That was supposed to have been completed in February, but recently we were informed that it may not be finished until June. As a result, we have decided to have our current supplier produce two more batches of product for us, to ensure that we have sufficient inventory to last until we can manufacture the new 30mL bottle. While we had originally expected to receive FDA approval by now, and to be able to begin marketing the new product this year, unfortunately we have no control over the FDA's review process, and there is nothing more we can do until their review is completed.

In the meantime, we are continuing to work with our marketing partners, in particular ASI, to bring new personal care products to the marketplace to supplement our current product line. Over the past couple of years we have been concentrating our R&D efforts on our new Lubrajel "Natural" line, which uses only ingredients that will enable the product to qualify as "natural". The first of these products, our original "Lubrajel Natural", has been certified as natural by Ecocert, a leading industry certification organization for natural and organic products, and is currently being evaluated by customers. We are also working on two additional products for this line. One of them uses natural ingredients from marine sources. The other is a "natural" form of our very successful Lubrajel Oil. We hope to have final formulations of both of these products sampled to all our marketing partners by the end of the second quarter of this year.

In addition to the new products in the Lubrajel Natural line there are a number of other products under development, most of which are intended for the personal care market. We also hope to continue our work with an Australian company that has retained us to formulate a water-based carrier for its proprietary virucidal ingredient. Phase I of this project has already been completed, and we are currently in discussions with them to determine whether to proceed to Phase II. While it is too soon to know whether we will be able to develop a product that is satisfactory to them, our ultimate goal is to manufacture the finished product for them if our development efforts are successful.

Although it was disappointing for us to lose some of our personal care product business in 2014, we are working hard to regain as much of that business as we can, and sales so far in 2015 have been strong. We believe that our core Lubrajel business will continue to grow, particularly in Asia and other developing areas. In addition, by mid-2015 we anticipate that we will receive FDA approval to market the new single-dose form of Renacidin. We are confident that despite the increased competition from some Lubrajel competitors, we will be able to continue to grow our personal care products business, and that 2015 will be another profitable year for us.

Sincerely,

UNITED-GUARDIAN, INC.

Ken Globus

Ken Globus
President

UNITED-GUARDIAN, INC.

STATEMENTS OF INCOME

	Years ended December 31, 2014	2013
Net sales	**$ 13,449,679**	$ 15,416,893
Costs and expenses:		
Cost of sales	**5,317,707**	5,610,813
Operating expenses	**2,640,997**	2,504,526
Total costs and expenses	**7,958,704**	8,115,339
Income from operations	**5,490,975**	7,301,554
Other income:		
Investment income	**239,592**	259,747
Income from damage settlement	**24,403**	1,070,561
Total other income	**263,995**	1,330,308
Income from operations before income taxes	**5,754,970**	8,631,862
Provision for income taxes	**1,704,554**	2,728,553
Net income	**$ 4,050,416**	$ 5,903,309
Earnings per common share (basic and diluted)	**$ .88**	$ 1.28
Weighted average shares (basic and diluted)	**4,596,439**	4,596,439

STATEMENTS OF COMPREHENSIVE INCOME

	Years ended December 31, 2014	2013
Net income	**$ 4,050,416**	$ 5,903,309
Other comprehensive income (loss):		
Unrealized gain (loss) on marketable securities	**191,533**	(71,711)
Income tax (expense) benefit	**(63,787)**	24,855
Other comprehensive income (loss), net of tax	**127,746**	(46,856)
Comprehensive income	**$ 4,178,162**	$ 5,856,453

See Notes to Financial Statements

UNITED-GUARDIAN, INC.

BALANCE SHEETS

ASSETS

	December 31,	
	2014	2013
Current assets:		
Cash and cash equivalents	**$ 2,023,383**	$ 1,634,262
Marketable securities	**9,389,501**	8,863,205
Accounts receivable, net of allowance for doubtful accounts of $30,000 in 2014 and $18,000 in 2013	**1,593,260**	1,790,747
Receivable in connection with damage settlement	**---**	48,805
Inventories (net)	**1,237,154**	1,610,747
Prepaid expenses and other current assets	**165,691**	130,001
Prepaid income taxes	**30,643**	---
Deferred income taxes	**223,439**	229,451
Total current assets	**14,663,071**	14,307,218
Property, plant, and equipment:		
Land	**69,000**	69,000
Factory equipment and fixtures	**4,138,875**	4,090,968
Building and improvements	**2,773,002**	2,766,319
Waste disposal system	**---**	133,532
Total property, plant and equipment	**6,980,877**	7,059,819
Less accumulated depreciation	**5,772,974**	5,725,318
Net property, plant, and equipment	**1,207,903**	1,334,501
Other assets:	**68,042**	9,147
Total assets	**$ 15,939,016**	$ 15,650,866

See Notes to Financial Statements

UNITED-GUARDIAN, INC.

BALANCE SHEETS
(continued)

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2014	December 31, 2013
Current liabilities:		
Accounts payable	**$ 141,111**	$ 385,699
Accrued expenses	**833,859**	728,015
Income taxes payable	**---**	131,638
Total current liabilities	**974,970**	1,245,352
Deferred income taxes	**227,108**	169,587
Commitments and contingencies		
Stockholders' equity:		
Common stock, $.10 par value; 10,000,000 shares authorized; 4,596,439 shares issued and outstanding at December 31, 2014 and 2013, respectively	**459,644**	459,644
Accumulated other comprehensive income	**259,869**	132,123
Retained earnings	**14,017,425**	13,644,160
Total stockholders' equity	**14,736,938**	14,235,927
Total liabilities and stockholders' equity	**$ 15,939,016**	$ 15,650,866

UNITED-GUARDIAN, INC.

STATEMENT OF STOCKHOLDERS' EQUITY

Years ended December 31, 2014 and 2013

	Common stock Shares	Common stock Amount	Accumulated other comprehensive income	Retained earnings	Total
Balance, January 1, 2013	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**
Change in unrealized gains on marketable securities, net of deferred income tax expense of $63,787			**127,746**		**127,746**
Net income				**4,050,416**	**4,050,416**
Dividends declared and paid				**(3,677,151)**	**(3,677,151)**
Balance, December 31, 2014	**4,596,439**	**$ 459,644**	**$ 259,869**	**$ 14,017,425**	**$ 14,736,938**

See Notes to Financial Statements

UNITED-GUARDIAN, INC.

STATEMENTS OF CASH FLOWS

	Years ended December 31,	
	2014	2013
Cash flows from operating activities:		
Net income	**$ 4,050,416**	$ 5,903,309
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**181,188**	189,729
Realized loss (gain) on sales of marketable securities	**25,127**	(18,675)
Increase (decrease) in allowance for bad debts	**12,325**	(11,089)
Deferred income taxes	**(254)**	(12,161)
Increase (decrease) in cash resulting from changes in operating assets and liabilities:		
Accounts receivable	**185,162**	(762,031)
Receivable from damage settlement	**48,805**	469,245
Inventories	**373,593**	(367,997)
Prepaid expenses and other current and non-current assets	**(94,585)**	(6,690)
Prepaid income taxes	**(30,643)**	3,602
Accounts payable	**(244,588)**	234,314
Accrued expenses and taxes payable	**(25,794)**	183,530
Net cash provided by operating activities	**4,480,752**	5,805,086
Cash flows from investing activities:		
Acquisitions of plant and equipment	**(54,590)**	(288,367)
Purchases of marketable securities	**(3,437,478)**	(5,311,313)
Proceeds from sales of marketable securities	**3,077,588**	4,139,018
Net cash used in investing activities	**(414,480)**	(1,460,662)
Cash flows from financing activities:		
Dividends paid	**(3,677,151)**	(4,458,544)
Net cash used in financing activities	**(3,677,151)**	(4,458,544)
Net increase (decrease) in cash and cash equivalents	**389,121**	(114,120)
Cash and cash equivalents, beginning of year	**1,634,262**	1,748,382
Cash and cash equivalents, end of year	**$ 2,023,383**	$ 1,634,262

See Notes to Financial Statements

UNITED-GUARDIAN, INC.

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 94.6% and 94.4% of revenue for the years ended December 31, 2014 and December 31, 2013, respectively. LUBRAJEL accounted for 85.9% and 91.4% of revenue for the years ended December 31, 2014 and December 31, 2013, respectively, and RENACIDIN accounted for 8.8% and 2.9% of revenue for the years ended December 31, 2014 and December 31, 2013, 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.

From time to time during 2014 the Company offered discounts and/or rebates to some of its customers in order to retain or increase sales to those customers. In 2014 those sales discounts totaled $119,965, compared with $11,000 in 2013. Of the $119,965 in sales discounts in 2014, $23,965 had been paid, and $96,000 accrued, as of December 31, 2014. The $96,000 of accrued sales discounts consisted of rebates given to one of the Company's largest customers in order to retain and increase its business with that customer.

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 14, 2014, the Company's Board of Directors declared a semi-annual cash dividend of $0.48 per share, which was paid on June 13, 2014 to all stockholders of record as of May 30, 2014. On November 20, 2014, the Company's Board of Directors declared a semi-annual cash dividend of $0.32 per share, which was paid on December 22, 2014 to all stockholders of record as of December 8, 2014. Total dividends declared and paid in 2014 were $3,677,151.

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.

Supplemental Disclosures of Non-cash Investing and Financing Activities

Cash payments for income taxes were $1,867,089 and $2,605,474 for the years ended December 31, 2014 and 2013, respectively.

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 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, 2014 and 2013.

Other Assets

Other assets at December 31, 2014 consisted of $60,042 expended in connection with the development of a new dosage form and manufacturing process for RENACIDIN, and $8,000 in costs incurred in re-registering the Company's LUBRAJEL trademark. The Company will determine the appropriate amortization rate for these assets at such time as they are put into service.

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, 2014, two of the Company's distributors and marketing partners accounted for 64.7% of the Company's revenues during the year, and 56.3% of its outstanding accounts receivable at year end. For the year ended December 31, 2013, two of the Company's distributors and marketing partners, one the same as in 2014, and the other different, accounted for a total of 69% of the Company's revenues during the year, and 72% 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 collectively accounted for approximately 84% and 67% of the raw material purchases by the Company in 2014 and 2013, 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, 2014 and 2013, 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, 2014 and 2013 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 2010 through 2013. In March 2014 the New York State Department of Taxation and Finance ("DTF") commenced a routine examination of the Company's income tax returns for years 2010 through 2012. The DTF has completed its examination and has accepted the tax returns as filed.

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 $730,000 and $717,000 for the years ended December 31, 2014 and 2013, 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 $86,000 and $45,000 for the years ended December 31, 2014 and 2013, respectively.

Advertising Costs

Advertising costs are expensed as incurred. During 2014 and 2013 the Company incurred $20,000 and $16,000, respectively, in advertising costs.

Stock-Based Compensation

In 2004, the Company approved a stock option plan ("2004 Stock Option Plan") authorizing the granting of stock options to Company employees and Directors. No options were ever issued under this plan, and it expired in March 2014.

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 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.

In May 2014, FASB issued ASU 2014-09, “Revenue from Contracts with Customers.” This standard applies to any entity that uses the guidance of 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. This amendment is effective for interim and annual reporting periods beginning after December 15, 2016. The Company is still evaluating the potential impact on the Company’s results of operations.

In June 2014, FASB issued ASU 2014-11, “Transfers and Servicing: Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures.” This standard aligns the accounting for repurchases-to-maturity transactions and repurchase agreements executed as a repurchase financing with accounting for other typical repurchase agreements. These types of transactions will now be accounted for as secured borrowings. It eliminates sales accounting for repurchase-to-maturity and supersedes guidance for accounting transactions involving transfers of financial assets with contemporaneous repurchase financing agreements that leads to off-balance accounting. This update becomes effective for interim and annual reporting periods beginning after December 15, 2014 and is not expected to have a material impact on the Company’s results of operations.

In August 2014, 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 reporting periods beginning after December 15, 2016 with early application being permitted. The update will be adopted for reporting periods starting January 2015, and is not expected to have a material impact on the Company's results of operations.

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, 2014	Cost	Fair Value	Unrealized Gain/(Loss)
Available for sale:			
Fixed income mutual funds	**$ 8,373,674**	**$ 8,575,285**	**$ 201,611**
Equity and other mutual funds	**622,086**	**814,216**	**192,130**
	$ 8,995,760	**$ 9,389,501**	**$ 393,741**
December 31, 2013			
Available for sale:			
Corporate bonds (maturing 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

Proceeds from the sale and redemption of marketable securities amounted to $3,077,588 and $4,139,018 for the years ended December 31, 2014 and 2013, respectively. Losses of $25,127 and gains of $18,675 were realized for the years ended December 31, 2014 and 2013, 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, 2014	December 31, 2013
Raw materials and work-in-process	$ **395,092**	$ 488,757
Finished products	**842,062**	1,121,990
	$ **1,237,154**	$ 1,610,747

Finished product inventories at December 31, 2014 and 2013 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, 2014	Years ended December 31, 2013
Current		
Federal	$ **1,714,387**	$ 2,721,068
State	**(9,579)**	19,646
	1,704,808	2,740,714
Deferred		
Federal	**(4,003)**	(11,810)
State	**3,749**	(351)
	(254)	(12,161)
Total provision for income taxes	$ **1,704,554**	$ 2,728,553

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, 2014		2013	
	($)	**Tax rate**	($)	Tax rate
Income taxes at statutory federal income tax rate of 34%	$ **1,957,000**	**34.0** %	$ 2,935,000	34.0 %
State income taxes, net of Federal benefit	**(4,000)**	**(0.1)**	13,000	0.2
Domestic Production Activities tax benefit	**(168,000)**	**(2.9)**	(180,000)	(2.1)
Nondeductible expenses	**1,000**	**---**	1,000	---
Prior year over-accrual	**(56,000)**	**(1.0)**	(19,000)	(0.2)
R&D credits	**(25,000)**	**(0.4)**	(20,000)	(0.2)
Other, misc.	**---**	**---**	(1,000)	---
Actual income tax expense	$ **1,705,000**	**29.6** %	$ 2,729,000	31.7 %

During 2014 and 2013, 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,	
	2014	2013
Deferred tax assets		
Current		
Accounts receivable	**$ 10,164**	$ 6,089
Inventories	**14,037**	16,862
Accrued expenses	**199,238**	206,500
	223,439	229,451
Deferred tax liabilities		
Non-current		
Depreciation	**(93,236)**	(99,502)
Unrealized gain on marketable securities	**(133,872)**	(70,085)
	(227,108)	(169,587)
Net deferred tax (liability) asset	**$ (3,669)**	$ 59,864

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 $103,000 and $101,000 for each of the years ended December 31, 2014 and 2013. In 2014 and 2013 employees were able to defer up to $17,500 for each year 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 have been increased to $18,000 (plus an additional $6,000 for employees over the age of 50) for the year 2015).

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 2014 and 2013 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 2014 and 2013 plan years. The 2014 contribution was paid in 2014, and the 2013 contribution was paid in 2013. 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

In March 2004 the Board of Directors of the Company approved the adoption of the 2004 Stock Option Plan, which authorized the granting of stock options to both employees and Directors. The plan was ratified by the shareholders on May 19, 2004. No options were ever granted under the plan, and it expired in March 2014.

NOTE F - GEOGRAPHIC and OTHER INFORMATION

Through its Guardian Laboratories division the Company manufactures and markets cosmetic ingredients, personal care products, pharmaceuticals, medical lubricants, 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: 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 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, 2014	2013
Personal Care	**$ 9,421,041**	$ 11,459,482
Medical	**2,494,205**	3,028,659
Pharmaceutical	**1,686,563**	916,927
Industrial and other	**169,486**	164,014
	13,771,295	15,569,082
Less: Discounts and allowances	**(321,616)**	(152,189)
	$ 13,449,679	$ 15,416,893

(b) Geographic Information

	Years ended December 31, 2014		2013	
	Revenues	**Long-Lived Assets**	Revenues	Long-Lived Assets
United States	**$ 4,723,779**	**$ 1,207,903**	$ 4,580,429	$ 1,334,501
China	**3,500,955**	**---**	3,519,450	---
Canada	**2,436,596**	**---**	3,390,619	---
United Kingdom	**703,142**	**---**	846,730	---
India	**615,890**		431,015	
France	**582,478**	**---**	856,285	---
Other countries	**886,839**	**---**	1,792,365	---
	$ 13,449,679	**$ 1,207,903**	$ 15,416,893	$ 1,334,501

(c) Sales to Major Customers

	Years ended December 31, 2014	2013
Customer A	**$ 7,929,208**	$ 9,712,382
Customer B	**582,478**	856,285
Customer C	**615,890**	431,015
All other customers	**4,322,103**	4,417,211
	$ 13,449,679	$ 15,416,893

Customer A had one customer that comprised 32% of Customer A's sales of the Company's products in 2014, and 36% of its sales in 2013.

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, 2014**	December 31, 2013
Beginning balance - net of tax	**$ 132,123**	$ 178,979
Unrealized gain/(loss) on marketable securities before reclassifications - net of tax	**152,873**	(65,531)
Realized (loss)/gain on sale of securities reclassified from accumulated other comprehensive income	**(25,127)**	18,675
Ending balance - net of tax	**$ 259,869**	$ 132,123

NOTE H - INCOME FROM DAMAGE SETTLEMENT

In May 2012 the supplier of one of the Company's pharmaceutical products, RENACIDIN, curtailed production due to manufacturing issues. In January 2013 the Company and its supplier entered into a settlement agreement whereby the supplier agreed to pay the Company $518,050 for the profit the Company lost during 2012 as result of the curtailment, plus $97,610 a month beginning January 1, 2013 for each month that the curtailment continued; $48,805 for each of the first two months after shipments resumed; and a final payment of $24,403 for the third month after shipments resumed. Because deliveries resumed at the end of October 2013, the supplier's obligation to pay $97,610 per month ceased as of that date. By the end of the first quarter of 2014 all damage payments had been made. As a result, the Company received only $24,403 in damage settlement payments for the year ended December 31, 2014, as compared with $1,070,561 for the year ended December 31, 2013.

NOTE I - ACCRUED EXPENSES

Accrued expenses at December 31, 2014 and 2013 consist of:

	2014	2013
Bonuses	**$ 225,000**	$ 250,000
Distribution fees	**203,483**	196,558
Payroll and related expenses	**127,585**	104,394
Annual report expenses	**61,000**	66,000
Audit fee	**82,000**	73,269
Sales rebates	**96,000**	---
Other	**38,791**	37,794
	$ 833,859	$ 728,015

NOTE J - RELATED PARTY TRANSACTIONS

During each of the years ended December 31, 2014 and 2013 the Company paid to Bonamassa, Maietta, and Cartelli, LLP, $17,000, and $14,000, 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, 2014 and 2013. 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 2014 and 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, 2014 compared with the year ended December 31, 2013:

Net Sales

Net sales in 2014 decreased by $1,967,214 (12.8%) compared with 2013. The net decrease 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, decreased by $2,038,440 (17.8%) for the year ended December 31, 2014 when compared with 2013. The decrease was attributable primarily to a decrease in sales to ASI, the Company's largest marketing partner. Sales to ASI in 2014 decreased by $1,753,174 (18.1%) compared with 2013. Sales to three of the Company's marketing partners in Europe, decreased by $422,921 (25.1%) in 2014 compared with 2013, while sales to the Company's distributor in Korea increased slightly.

There were two principal reasons for the decline in the Company's sales to ASI in 2014. The most significant was a reduction in sales in the third quarter of 2014 to ASI's single largest customer for one of the Company's products. The Company was informed by ASI that the customer had new management in place, and it has been mandated that there be a second supplier for all of that company's products. As a result, a significant volume of business went to this second supplier in the third quarter of 2014, resulting in the loss of a significant amount of business for ASI and the Company. This also left ASI with excess inventory that it had brought in for this customer, which then had to be worked off. As a result of discussions between the Company, ASI, and this customer, the Company believes that in 2015 it will regain some of the business that it lost to the second source supplier. However, for the near future the Company anticipates that sales to this customer will be down compared with previous years, and the Company is working closely with ASI to expand its customer base to make up for some of this lost business.

The other significant reason for the decline in sales to ASI during 2014 was the purchase by ASI of unusually large quantities of product at the end of 2013 and first quarter of 2014 to fill orders placed by its customers in China. As a result, ASI did not purchase similar quantities of product for those customers in the second and third quarters of 2014. ASI has informed the Company, however, that sales to those customers in China are expected to remain strong, and that these fluctuations in purchases are more an issue of the timing of orders rather than any loss of business. In the fourth quarter of 2014 and the first quarter of 2015 the Company received substantial new orders from ASI intended for those customers in China.

In addition to the lower sales to ASI, sales to the Company's other marketing partners in Europe were down due to the continuing economic problems in Europe. Although there has also been additional competition in the marketplace for the Company's products, the Company's marketing partners in Europe have indicated that they have not yet experienced any significant loss of customers due to competitive products.

Total sales of all of the Company's LUBRAJEL products for both personal care and medical uses decreased by $2,547,184 (18.1%) in 2014 compared with 2013. The unit volume of all LUBRAJEL products sold, both for personal care and medical uses, decreased by approximately 17.9% in 2014 compared with 2013. Revenue from the Company's personal care products was also negatively impacted in 2014 due to discounts offered by the Company from time to time to retain or increase the sales to some of its large-volume customers, and to bring in new customers that may be evaluating competitive products. In 2014 those sales discounts totaled $119,965, compared with $11,000 in 2013. Of the $119,965 in sales discounts in 2014, $23,965 had been paid, and $96,000 accrued, as of December 31, 2014. The $96,000 of accrued sales discounts consisted of rebates given to one of the Company's largest customers in order to retain and increase its business with that customer. The Company anticipates that the rebates to be given in 2015 will be less than in 2014 due to the Company discounting the price of some of its products for some of its large volume customers rather than offering rebates.

(b) **Pharmaceuticals**:

Sales of the Company's two pharmaceutical products, RENACIDIN and CLORPACTIN®, together increased by $769,636 (83.9%) for the year ended December 31, 2014 compared with 2013, with RENACIDIN accounting for almost the entire increase. RENACIDIN accounted for 8.8% of the Company's sales in 2014, and 3.0% of sales in 2013. RENACIDIN had been off the market from August 2012 until the end of October 2013 due to production and regulatory problems experienced by the Company's sole supplier. RENACIDIN sales are still significantly lower than they were prior to the production curtailment. Towards the end of 2014 the Company worked with a pharmaceutical consultant to better understand why sales have not attained previous levels, and is continuing its efforts to ensure that previous prescribers of the product are aware that the product is available again.

The Company is also working with a new supplier that will be producing RENACIDIN in a new single-dose container, which the Company hopes will increase its sales of this product in future years. In August 2014 the Company filed an application with the FDA to market the new product, is hoping to receive FDA approval by the end of the first quarter of 2015, and hopes to have the new product on the market in the third quarter of 2015. However, any delays in FDA approval could change that timetable. Meanwhile, the Company is continuing to receive 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.

The increase in sales of the Company's pharmaceutical products was reduced by an increase of $49,462 in allowances for distribution fees, product returns, and chargebacks paid to the U.S. Department of Veterans Affairs.

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

Sales of the Company's medical products decreased by $534,454 (17.6%) in 2014 compared with 2013. Approximately 83% of the decrease for 2014 was attributable to the discontinuation of sales to a customer that had eliminated the Company's product as an ingredient in one of its products at the end of 2013. The balance of the decrease is believed to be due 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, increased by $5,471 (3.3%) in 2014 when compared with 2013.

Cost of Sales

Cost of sales as a percentage of net sales in 2014 increased to 39.5% from 36.4% in the prior year. The increase was primarily the result of the Company's fixed overhead costs being allocated over a smaller number of production units, due to the decrease in demand for the Company's products during the third quarter of 2014 (see "Net Sales" above). Due to a reduction in the number of units produced some of the fixed overhead costs, which are usually absorbed as production costs, were included in cost of sales as period costs during the third quarter of 2014. Changes in the Company's product sales mix and additional sales discounts provided to customers also contributed to the increase.

Operating Expenses

Operating expenses increased by $136,471 (5.4%) in 2014 compared with the prior year. The increase was mainly attributed to increases in freight expense, insurance, payroll and payroll-related expenses. The increase in freight expense was a result of an increase in shipments of RENACIDIN in 2014 compared with 2013.

Portions of the Company's operating expenses are directly attributable to the research and development that the Company performs. In 2014 and 2013, the Company incurred approximately $730,000 and $717,000 respectively, in research and development expenses, which are included in operating expenses. The increase in R&D costs incurred in 2014 was primarily attributable to increases in payroll costs. In 2014 approximately $20,000 was received from two customers for R&D work on the development of new products. The payment was mainly for salary expense and is included in the 2014 R&D expense above.

Other Income (Expense)

Other income (net) decreased by $1,066,313 (80.2%) for the year ended December 31, 2014 when compared with 2013. The decreases were mainly attributable to the cessation of the RENACIDIN settlement payments in 2014. As a result, income from those payments decreased $1,046,158 for the year ended 2014 as compared to 2013.

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 2014 by a decrease in investment income of $20,155 (7.8%), which primarily resulted from the loss on the sale of mutual funds.

Provision for Income Taxes

The provision for income taxes decreased by $1,023,999 (37.5%) in 2014 compared with 2013. This decrease was mainly due to a decrease in income from operations and from the cessation of the RENACIDIN damage settlement. The Company's effective income tax rate was approximately 30% in 2014 and 32% in 2013, 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 $13,061,866 at December 31, 2013 to $13,688,101 at December 31, 2014, an increase of $626,235 (4.8%). The current ratio increased from 11.5 to 1 at December 31, 2013 to 15.0 to 1 at December 31, 2014. The increases in working capital and the current ratio were mainly due to additional purchases of marketable securities, increases in cash, and decreases in accounts payable and income taxes payable, partially offset by a decrease in inventories.

Accounts receivable (net of allowance for doubtful accounts) as of December 31, 2014 decreased by $197,487 as compared with 2013. The average period of time that an account receivable was outstanding was approximately 46 and 33 days in 2014 and in 2013, respectively. The increase was the result of extending some foreign customer payment terms from 45 days to 60 days. The Company has bad debt reserves of $30,000 and $18,000 for 2014 and 2013, respectively, and believes that the net balance of its accounts receivable is fully collectable as of December 31, 2014.

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 $4,480,752 in 2014 compared with $5,805,086 in 2013. The decrease in 2014 was primarily due to decreases in net income and accounts payable.

Net cash used in investing activities was $414,480 for the year ended December 31, 2014, compared with $1,460,662 for the year ended December 31, 2013. This decrease was mainly due to a decrease in purchases of marketable securities in 2014 compared with 2013.

Cash used in financing activities was $3,677,151 and $4,458,544 during the years ended December 31, 2014 and 2013, respectively. The decrease was mainly due to a lower dividend being paid out in December 2014 than was paid in December 2013.

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, 2013 to December 31, 2014. The quotations represent prices between dealers and do not include retail markup, markdown or commission:

Quarters		**Year Ended December 31, 2014**		Year Ended December 31, 2013	
		High	**Low**	High	Low
First	(1/1 - 3/31)	**$ 29.25**	**$ 26.95**	$ 22.69	$ 18.84
Second	(4/1 - 6/30)	**34.43**	**26.66**	26.55	19.95
Third	(7/1 - 9/30)	**30.60**	**20.99**	28.33	23.80
Fourth	(10/1 - 12/31)	**22.89**	**19.00**	28.80	24.28

Holders of Record

As of March 3, 2015, there were 832 holders of record of Common Stock.

Cash Dividends

On May 14, 2014, the Company's Board of Directors declared a semi-annual cash dividend of $0.48 per share, which was paid on June 13, 2014 to all stockholders of record as of May 30, 2014. On November 20, 2014, the Company's Board of Directors declared a semi-annual cash dividend of $0.32 per share, which was paid on December 22, 2014 to all stockholders of record as of December 8, 2014.

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.

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, 2014 and 2013, 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, 2014 and 2013, 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 20, 2015

Registrar and Transfer Agent
Continental Stock Transfer & Trust Company
17 Battery Place ● New York, NY 10004

Auditors
Baker Tilly Virchow Krause, LLP
Melville, NY

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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.

UNITED-GUARDIAN, INC.

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